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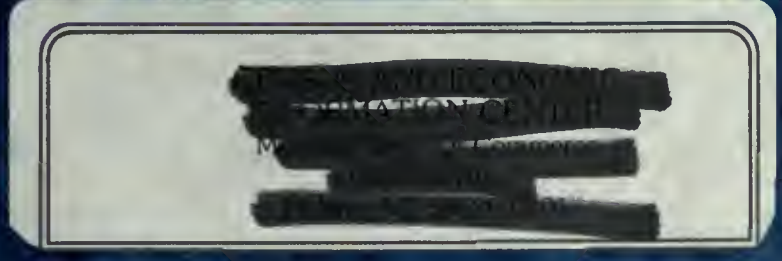
ECONOMIC CONDITIONS IN MONTANA

1981

Office of the Governor
Department of Commerce

An Old West Regional Commission
Technical Assistance Project



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1981

Prepared by:

Office of the Governor
Department of Commerce

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An Old West Regional Commission
Technical Assistance Project

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READERS' NOTE: This updated report on Montana's economic condition inadvertently omits the following basic industries:

- the federal government, including military activity;
- travel and tourism;
- manufacturing activity other than wood products; and
- transportation (primarily railroads).

For further information on these economic sectors, see the 1980 Economic Conditions in Montana report, available from the Census and Economic Information Center, Department of Commerce, Helena, Montana, 59620. Phone: (406)449-2896.

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NATIONAL ECONOMIC CONDITIONS

This section provides a summary of the economic condition of the United States in 1981 and the outlook for 1982. The emphasis is on the current economic downturn, prospects for recovery and the economic policy of the Federal government.

In 1981 the nation's economy was fragile and appeared headed for a fall. The year began with inflation running at a 13 percent annual rate, the prime interest rate at 21.5 percent and unemployment at 7.4 percent. Economic activity fell substantially in the fourth quarter of 1981 after sustaining a modest plateau for the first three quarters of the year. The number of unemployed increased by 1.8 million in the last four months, and the unemployment rate reached 8.9 percent in December. Major employment losses occurred in automobiles, residential construction, and manufacturing. Consumer borrowing became more cautious, and businesses curtailed plans for capital investments in 1982.

The Bureau of Economic Analysis estimates that the real value of Gross National Products(GNP), the value of all goods and services produced in the economy, fell at an annual rate of 5 to 6 percent in the last quarter of the year (see Table 1).

This decline in GNP was in sharp contrast to the first quarter of 1981 when GNP experienced its largest gain in three years. Forecasts of a short, mild decline followed by a rigorous upturn in economic activity appear tenuous. Some believe the current recession may be the worst of post-World War II declines.

Table 1: Gross National Product (billions of dollars) ($ 1972), Seasonally Adjusted at Annual Rates, 1979-1981.

1979	1980	1980			1981		
		I	II	III	I	II	III
$1,483.0	$1,480.3	$1,463.3	$1,471.9	$1,485.6	$1,516.4	$1,510.4	$1,515.8

Source: Survey of Current Business: U.S. Department of Commerce.
Western Analysis, Inc.

SELECTED ECONOMIC SECTORS

Residential Construction

The national economic conditions regarding residential construction and, to a lesser extent, automobile production, affect demand for Montana's wood products and copper resources. Residential construction and the automobile industries suffered extensive losses in the last quarter of the year. Real residential construction declined by 3.5 billion dollars. Housing starts fell to a record low seasonally adjusted annual rate of 868,000 in October and November. Unemployment in the industry climbed to 18.1 percent in December. The market may have bottomed out in December, as the number of building permits increased. Financial conditions improved in mortgage markets, and if interest rates stabilize a turnaround in housing may occur.

Despite the potential recovery in the housing markets, consumer faith that housing prices will continue to rise has been shaken, and they may look elsewhere for long-term investments. The Mead Corporation, a forest products concern, has reduced its estimates of housing starts in 1982 and 1983. Many economists predict housing starts for the decade will be 25 percent below previous estimates. The Federal government has no plans to provide extensive subsidies or low-interest mortgages to stem the decline in housing starts, as it did in the 1974-75 recession.

Auto Industry

The automobile industry sustained significant losses in 1981. Auto production was down by 7.5 billion in the fourth quarter, and

unemployment was at 21.6 percent in December. In addition to production line employment, salaried employment has been slashed on the assumption that auto and light truck sales will not return to pre-recession levels. Plans for new car models and new plants have been postponed until at least the second quarter of 1982. Yearly production levels are not expected to exceed those of 1961.

The car companies have to reduce inventories to manageable levels by the spring of this year. Large inventories began building by the third quarter of 1981. The various price discounts and car rebate programs improved sales that quarter. In the fourth quarter, production and sales dropped about equally, and inventories were little changed; hence the large carryover into the new model year.

The plunge in the auto industry has spilled over into other manufacturing concerns, especially steel and rubber industries. Many analysts fear that "temporary" layoffs in these industries may become permanent if the economy does not rebound by mid-year.

Agriculture

Agriculture is relatively insensitive to business cycle fluctuations. Since 1979 this sector has experienced stable or declining income and serious cash-flow problems. Net cash income in 1981 was down 20 percent from 1979. Cast flow problems have forced farmers to borrow against equity and total farm debt has grown over the last five years. The asset value of farms has stabilized or increased slowly. This coupled with high interest rates has meant that loans for equipment have been hard to obtain.

In 1982, inventories in farm products will be large relative to demand. Crop production was up 14 percent over 1980, largely because of a record wheat crop nationwide; livestock production was up 2 percent. Slack demand has affected farm prices, especially in livestock. The value of exports is expected to rise, which should help to moderate the decline in domestic prices.

Energy

Crude oil price and allocation decontrol, begun in 1977, was completed in 1981. Due to high prices and conservation, oil imports declined from 8.7 million barrels per day to about 5 million barrels per day in 1981. Intensive oil exploration and energy conservation has recently produced a worldwide oil glut. Overabundance of oil supplies and excess refining capacity may delay the expected increase in coal production until late in the decade. Purchases of steel and machinery used in oil exploration may decline in the short-term if oil prices do not increase.

Plant and Equipment

The manufacturing sector experienced a third quarter decline in capacity utilization, capital appropriation, and new orders for non-defense capital goods. A survey by the Bureau of Economic Analysis indicates manufacturing and non-manufacturing spending on plant and equipment will decline 0.8 percent in the fourth quarter of 1981. However, the same survey shows plans for increased real spending in the

first half of 1982 with a 2 percent increase in the first quarter and 0.5 percent increase in the second quarter.

Whether actual spending will increase in 1982 is unclear. Historically, businesses have overestimated spending plans in periods of economic downturn. However, there is a huge backlog of delayed capital projects. If money is available at affordable rates, and if businesses take advantage of investment incentives under the Economic Recovery Act of 1981, spending may meet or exceed current plans.

EMPLOYMENT

Productivity

Productivity in non-farm businesses, as measured by output per paid hour of work, increased 0.9 percent in 1981, but fell at a record 7.6 percent seasonally adjusted annual rate in the last quarter. The large decline can be explained by the reluctance of management to lay off experienced workers until economic decline is a certainty.

Unemployment

In addition to losses in autos and residential construction, major job losses among blue collar workers occurred in transportation equipment, electronics, fabricated and primary metals products, and lumber and wood products. The unemployment rate for all blue collar workers was 12.9 percent in December. This group, which comprises 30 percent of the workforce, accounted for 46 percent of the unemployed.

Although employment in the service sector remained fairly stable, the unemployment rate among white collar workers increased from 2.7 percent in November to 3.5 percent in December.

INCOME AND INFLATION

Personal Income and Spending

The rise in unemployment has contributed to a decline in personal income. Even with the cut in personal income tax, personal income (less transfer payments) in the fourth quarter rose by 46.5 billion dollars, compared with a 56.5 billion increase in the third quarter. Consumer spending will doubtless decline for the remainder of the winter even though retailers managed a slight gain in sales in December.

The high demand for consumer credit has abated. Installment lending rose only slightly in December, after a large decline in the previous month. Consumers began to pay off accumulated debt, thus reducing credit outstanding to its smallest advance of the year. The fall in demand for credit should exert downward pressure on interest rates.

Inflation

The best news of 1981 was the probable decline in the inflation rate, and projections for continued decline into 1982. The inflation rate for the four quarters prior to November, 1981, was 8.4 percent and is projected to be 7.2 percent in the following four quarters. However, different indices may give different results. Table 2 shows how three

Table 2: Percentage Changes in Consumer Price Index (CPI), 1980-1981.

	Seasonally Adjusted Annual Rate For Three Months, Ending:			
	February 1981	May 1981	August 1981	November 1981
CPI				
All items	11.2	7.9	11.5	8.4
All items less food and energy	8.9	9.0	14.3	8.9
All items less home purchases and mortgate interest	12.4	6.2	9.1	7.8

Source: Bureau of Labor and Statistics
Bureau of Economic Analysis
Western Analysis, Inc.

measures of the Consumer Price Index (CPI) displayed different behavior for the year.

The rate of increase of producer prices for most durable and non-durable goods declined significantly over the same period. Lumber and non-metallic minerals experienced absolute declines.

The decline in the inflation rate may be the result of several factors. One is the effort by the Federal Reserve Board over the past two years to restrict monetary growth, thereby reducing demand for industrial products and limiting wage increases. The current oil glut, and abundant farm crops in 1981, contributed to the short-term decline in the inflation rate. In the past, these same factors caused external "shocks" to the system which increased the short-term rate of inflation. If these factors are ignored, the actual inflation rate has been higher than indicated, implying that the 7.2 percent increase projected for next year may be too optimistic.

Interest Rates

If the decline in the inflation rate can be sustained, long-term interest rates should fall as well. The prime rate (interest charged by the largest banks to their best customers) averaged 19.5 percent for the first three quarters of 1981, but fell to 15.75 percent by early December. The discount rate (interest rate the Federal Reserve Board charges to member banks) was under 13 percent by year end. One accepted rule of thumb is that the long-term interest rate should run at about one to two percent above the inflation rate. If inflation were about 7

or 8 percent, the yield on governmental bonds, under ordinary circumstances, would be around 9 to 10 percent. Many economists do not foresee that kind of relationship for next year because of the high Federal government deficit. They argue that the deficit will, if financed through borrowing, "crowd-out" private credit demand and further exacerbate the economic slump with higher interest rates.

Other economists maintain that crowding-out is not a credit phenomenon but a physical phenomenon. They argue that crowding-out occurs when government spending increases too rapidly and draws real resources out of the private sector. The empirical evidence, they say, does not indicate that deficits drive-up interest rates and crowd out private borrowers. Therefore, interest rates need not rise in 1982 since the rate of growth of Federal spending is declining while state and local government spending is stable or declining.

The basic policy of the Federal Reserve Board over the last three years has been to limit the growth of the money supply within a fairly narrow range of 2.5 to 6 percent per year. On an annual basis this policy has been successful. Last year, for example, the annual rate of growth was 2.2 percent. The inflation rate fell by 25 percent and the dollar soared against other currencies. The growth rate, however, exhibited erratic behavior. During the first four months of the year, the money supply increased by 13.3 percent, declined 0.1 percent over the next six months, and since the end of October, grew by 13 percent. These fluctuations caused confusion in the money markets and adversely affected short-term interest rates.

High interest rates have had, among other things, a disasterous effect on savings and loan institutions. Savers have shifted money out of thrift institutions into higher yielding money market funds and certificates of deposit. The result was to limit further the funds available for housing and consumer durables.

ECONOMIC POLICY

Fiscal and Monetary Policy

The present administration has accepted the possibility of large deficits as high as 400 billion dollars for the next three years, in order to achieve the economic goals. In the absence of any tax increases, which appear unlikely in 1982, the deficits can be reduced only by robust economic activity. Increased defense spending is the only real fiscal stimulus that is planned. Higher government spending in the form of extended unemployment compensation, public works, and grants-in-aid to local governments is not anticipated.

At the same time, the Federal Reserve Board is being encouraged to maintain a prudent growth rate in the money supply. The money supply in past recessions has been allowed to expand at a rate faster than would ordinarily be desirable. However, the Fed has maintained a fairly tight monetary policy in this recession. But if interest rates do not drop below 10 percent, pressure will intensify to let the money supply grow at a faster rate. The dilemma is that a rapidly increasing money supply would fuel inflationary expectations and raise interest rates. Conversely, unusually slow growth could restrict the supply of credit and raise interest rates.

Many economists believe the dilemma could be avoided if taxes were increased to reduce the size of the deficits. On the other hand, interest rates could drop if the recession lasts longer than expected.

ECONOMIC RECOVERY ACT OF 1981

The cornerstone of the present administration's fiscal policy is the Economic Recovery Act of 1981. The goals of the legislation are to slow inflation, encourage savings and investment, and stimulate economic growth. In order to achieve these goals the Act provides for:

1. Sharp reductions in the growth of Federal spending;
2. Substantial tax cuts and changes in depreciation rules;
3. Elimination or modification of certain Federal regulations deemed to hamper economic growth;
4. Slower growth in the money supply.

Cut-backs in Federal spending occurred in non-defense items in the budget in FY 1982. Further reductions are planned in FY 1983. It is unclear whether Congress will allow defense spending to grow at the rate the Reagan administration considers necessary.

Perhaps the most significant part of the Act was the largest reduction in personal income tax in history. Reductions in marginal tax rates will occur over a three year period. The maximum marginal tax bracket was cut from 70 percent to 50 percent, and the capital gains tax was reduced from 28 percent to 20 percent. Included in the package is a plan to simplify and accelerate depreciation schedules on capital investments.

Businesses do not typically commit funds for expansion in advance of demand, and current dollar spending plans appear to be conservative in light of the investment incentives. However, a considerable lag between the time the incentives went into effect and increased spending should not be surprizing because expectations about the future economic environment are not easily changed. Historically, tax cuts and reductions in capital gains tax have had a stimulative effect on the economy.

The tax cuts are clearly designed to encourage personal savings and business investment in order to increase productivity and real output in the economy. There is evidence that the savings rate had increased in the last half of 1981. But it is not known whether savings increased as a result of the incentives or as a result of the recession. In order for the economic policy initiatives to work, savings must be followed by increased capital spending. But, as noted above, spending plans for the first half of 1982 are not encouraging. This may be due to existing excess capacity. The hope is that the incentives will encourage new ventures which are not tied to the immediate economic situation.

CONCLUSION

The 1981 recession may end up as the worst economic downturn in postwar history. The housing and automobile markets have been depressed for two or three years, and have contributed to declines in other sectors of the economy. Productivity, GNP, and personal income all declined in the fourth quarter. Unemployment climbed to 8.9 percent and some fear it could go above 10 percent.

There are positive indications that economic conditions are improving. The inflation rate fell to 8.4 percent and interest rates have fallen substantially. The housing market appears to have stabilized, and other economic indicators point to a recovery beginning by mid-1982.

The consensus view is that the recession will end by mid-1982, and a strong recovery will begin in the third quarter. Others see recovery beginning by as early as the end of the first quarter or beginning of the second. Real GNP is expected to increase by 2.9 percent between the fourth quarter of 1981 and the fourth quarter of 1982, prices are projected to rise by 7.2 percent over the same period, and unemployment is forecast to average 8.5 percent during 1982. Some analysts are less optimistic about the economic prospects, not only for next year but the entire decade as well. They see a long period of economic erosion with spurts of recovery. As one economist put it, the economy is "structurally unbalanced in terms of government spending, taxes, deficits, illiquidity, and interest rates." The argument is not without foundation. The economy has been flat for the last three years, and every time the economy shows signs of recovery, interest rates rise enough to inhibit residential construction, car purchases and business investments.

There are positive indications that the recession is bottoming out. The index of leading economic indicators rose by 0.6 percent in December, the first increase since July. Economists believe this index series foreshadows turns in economic activity by three or four months. A

one-month rise is not enough to allow predictors of economic recovery, but the development is encouraging. One of the components that contributed to the upward movement was an increase in the number of building permits. The ratio of coincident and lagging economic indicators, which tends to signal turns in advance of the leading series, also went up in December.

The present administration has charted a path of tight monetary and fiscal policy, and has implemented large tax cuts and incentives to spur economic recovery. If the administration's plan is to succeed, several things must occur. First, inflation and interest rates must decline and stabilize. Reductions in inflation cannot be at the expense of a prolonged recession, nor can unemployment remain persistently high for any length of time. Second, large deficits cannot become an impediment to lower inflation, or tax increases may be necessary. Third, Federal Reserve policy must be compatible with recovery. Fourth, businesses will have to take advantage of the economic incentives for expansion.

ECONOMIC CONDITIONS IN MONTANA

Historically, Montana has had a resource-based economy. Agriculture, mining, and wood products have provided the impetus for long-term development. These industries, along with energy development, will largely determine the economic future of Montana. Montana's isolation from major markets makes it difficult to sustain many industries that are not resource related. Thus, Montana's "comparative advantage" lies in its resource-based sectors, and its overall future development will be closely related to market forces affecting these sectors.

EMPLOYMENT

The most regularly gathered and reliable data concerning our economy are employment statistics. Changes in employment levels and in the relative importance of industries in employment terms are good indicators of the direction of Montana's economy. Employment levels, while important, do not provide a complete picture. Total earnings or earnings per worker are also useful indicators of an industries relative strength in the economy.

Total employment grew much faster in the 1970's than it did during the previous decade. Total employment in the 1960's increased by some 19,000 jobs, or about 8 percent for the decade. Employment gains since 1970 have amounted to approximately 91,000 jobs, or a 35 percent increase. This gain significantly outpaced the national average over the same period of time.

The growth in employment has not been evenly dispersed throughout all economic sectors. Large increases occurred in the trade and service related industries and in state and local governments, the so-called nonbasic or derivative sectors. Total basic employment, i.e., the export sector of an economy, has remained relatively constant over the past 20 years. There have been substantial job losses in some basic sectors, especially in agriculture, metal mining and primary metal processing. Employment has expanded in coal, oil and gas production, and wood products (although the wood products industry suffered a loss in jobs between 1979 and 1980). Table 3 shows the composition of basic and nonbasic employment in Montana since 1960.

The uneven growth since 1960 in the basic and nonbasic sectors may be puzzling to those who believe that service and trade jobs can come only as a result of basic industrial development. It is important to remember that at the turn of the century, the majority of the national labor force was employed in some form of primary production, i.e., food, lumber, metals, etc. These industries have experienced rapid productivity gains, requiring relatively fewer production workers for an increasing amount of physical or real dollar output. Also, overall income has increased, both in Montana and nationally, bidding up the demand for nonbasic activity.

It must be noted, however, that overall productivity (as measured by output per worker or per unit of labor and capital) has risen at a slower rate recently not only in the United States, but the major western industrial nations as well. The following reasons have been suggested for the disturbing trend:

Table 3: Employment in Selected Montana Industries, 1960-1981, (thousands).

Industry	1960	1965	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981*
BASIC														
Agriculture	39.0	35.2	36.1	35.0	33.1	36.3	38.8	34.8	33.4	34.5	33.0	32.2	31.4	31.5
Mining	7.4	7.5	6.6	5.4	6.3	6.5	7.1	6.4	6.1	6.1	7.0	7.7	7.6	8.4
Metal	4.5	4.6	4.0	2.9	3.7	3.8	4.0	3.1	2.4	2.1	2.0	2.1	1.5	1.4
Coal	NA	NA	NA	0.2	0.3	0.3	0.4	0.7	0.8	1.0	1.2	1.2	1.2	1.4
Oil & Gas	2.2	1.8	1.8	1.6	1.6	1.6	1.8	1.8	2.1	2.4	2.9	3.4	3.8	4.5
Other Mining	0.7	1.1	0.8	0.7	0.7	0.8	0.9	0.8	0.8	0.6	0.9	1.0	1.1	1.1
Manufacturing	20.4	22.2	23.9	24.0	24.5	24.8	24.5	22.1	23.7	25.1	26.3	27.0	23.6	23.2
Wood Products	7.3	8.6	8.2	8.7	9.2	9.8	9.5	8.1	9.1	9.8	10.7	11.1	8.8	9.2
Primary Metals	3.8	3.6	4.7	4.1	3.9	3.4	3.4	3.3	3.3	3.3	3.2	3.3	2.6	1.9
Food Products	4.3	4.3	4.3	4.2	4.2	4.3	4.1	3.5	3.7	4.1	4.0	4.1	4.1	3.9
Other Manufacturing	5.0	5.7	6.7	7.0	7.2	7.3	7.5	7.2	7.6	7.9	8.4	8.5	8.1	8.2
Railroad	9.0	7.5	6.6	6.4	6.4	6.3	6.5	6.1	6.1	6.3	6.8	7.4	6.9	7.2
Federal Government (excluding Military)	9.9	12.1	11.9	11.9	12.3	12.2	12.9	14.2	13.7	13.6	13.6	13.9	14.1	14.2
Total Basic	85.7	84.5	85.1	82.7	82.6	86.1	89.8	83.6	83.0	85.6	86.7	88.2	83.6	84.5

Table 3: Employment in Selected Montana Industries, (thousands), (continued).

Industry	1960	1965	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981*
NONBASIC														
Transportation, Communications & Utilities, excluding Railroad	10.0	10.0	10.8	11.3	11.5	12.4	13.0	12.9	13.4	14.0	14.9	15.7	16.1	16.0
Construction	11.0	12.0	11.0	11.7	11.4	13.0	13.5	12.1	13.8	15.7	16.7	15.6	14.7	14.5
Trade **	40.5	42.9	48.3	50.1	53.5	56.3	58.8	59.1	63.7	67.0	72.2	73.5	72.3	74.1
Services**	30.0	33.3	41.8	43.8	46.3	49.8	52.4	54.5	58.6	60.6	64.8	66.9	68.9	69.3
State & Local Government	28.6	33.8	40.7	42.5	43.1	43.2	45.3	50.7	52.0	56.4	58.1	56.2	56.5	56.2
Non-Farm Proprietors & Other	30.2	30.0	23.7	22.9	28.9	27.8	29.1	29.1	27.5	23.7	32.6	34.9	39.9	46.1
Total Nonbasic	150.3	162.0	176.3	182.3	194.7	202.5	212.1	218.4	229.0	237.4	259.3	262.8	268.4	276.2
TOTAL	236.0	246.5	261.4	265.0	277.3	288.6	301.9	302.0	312.0	323.0	346.0	351.0	352.0	360.7

*

**Estimate by Western Analysis, Inc.
Includes Employment in Finance, Insurance, and Real Estate.

Source: Montana Department of Labor and Industry, Employment Security Division
Western Analysis, Inc.

* lack of capital formation due to disincentives to save and invest;
* increasing uncertainty about future prices and costs due to an "inflation psychology";
* reduced expenditures in research and development;
* the shift from an industrial society, "hard technology", to a service oriented society, "soft technology"; and,
* aging capital stock and less intensive use of plant and equipment.

UNEMPLOYMENT

The unemployment rate is probably the most often quoted statistic in economic discussions and perhaps the least understood. Its calculation depends on two factors: the level of employment and the total size of the labor force. The level of employment can be accurately determined, the size of the labor force cannot. At a minimum, it is necessary to make certain assumptions about the number of individuals in the workforce.

Unemployment rates in Montana and the United States have been higher in the 1970's than in earlier periods. National unemployment averaged 6.3 pecent of the labor force for the 1970s. But, since 1975

unemployment has averaged 7.0 percent of the labor force. The average unemployment rate in Montana during the 1970's was 5.4 percent, or about 10 percent lower than the national figure. This is largely due to our relatively less industrialized economy and lack of structural unemployment resulting in more stable year-to-year employment patterns. Table 4 presents a comparison of state and national rates.

The loss of jobs in mining, smelting, wood products, state employment due to federal budget reductions, and coal strikes early in the year and the continued incrase in the civilian labor force account for much of the estimated increase in the unemployment rate in Montana for 1981.

The most important variables in explaining the general increasing unemployment rates are the size of the labor force and labor force participation rates. The postwar baby boom has resulted in more people than ever entering the labor force. In addition, the increased labor force participation rates of young people and of women across all ages has expanded the labor force. The basic sectors, especially in those industries where productivity has improved, have not been able to provide employment for their workers. As a consequence of increasing income and a rapidly expanding supply of workers the service and trade sectors have absorbed most, but not all, of the new entrants into the labor force. Therefore, total employment growth has been somewhat less than the increase in the number of individuals seeking jobs, resulting in a long-term increase in the overall unemployment rate. But, as the impact of the baby boom fades, unemployment rates should improve.

Table 4: Unemployment Rates for Total Civilian Labor Force, 1970-1981.

Year	Annual Average Unemployment Rates	
	Montana	United States
1970	4.3	5.0
1971	4.8	6.0
1972	4.8	5.6
1973	4.8	4.9
1974	5.2	5.6
1975	6.4	8.5
1976	6.1	7.7
1977	6.4	7.0
1978	6.0	6.0
1979	5.1	5.8
1980	6.0	7.1
1981	6.4 (E)	8.1 (E)

Source: United States Department of Labor
Western Analysis, Inc.

Except for periods of economic downturn, the general rise in unemployment since 1970 cannot be totally explained by worsening business conditions. In fact, total employment in the United States has increased at a faster rate since 1970 than during the previous decade. The Montana economy has performed even better in terms of providing jobs for its citizens. Jobs have increased at an annual average rate of 3.4 percent since 1970 compared with only 0.8 percent per year during the period 1955-1969. Rising unemployment, in view of the relatively rapid increase in new jobs, poses some legitimate questions about the usefulness of the unemployment rate as an indicator of "economic well-being" over time. Consider the following changes which have affected the unemployment rate.

* The percent of the total U.S. population seeking work has increased from around 38 percent in 1960 to over 46 percent in 1977. This means that an additional 8.3 million people are looking for work because there are more individuals of working age and also more who want to work today than has historically been the case.
* This has been caused by a more than proportional increase of women and youth in the civilian labor force. In 1960 women comprised 33 percent of the employed civilians, in 1979 the figure was 42 percent. In 1960 youth aged 16-19 years comprised 6.3 percent of the employed; in 1979 they had jumped to 8.3 percent of the total.

Another perspective on employment data can be gained by looking at the employment ratio, the number of people who are employed. This number has been increasing both nationally and in Montana because of the increase in working age people and more people wanting to work, and the increase in jobs. In 1960, 35.0 percent of Montanans were employed. In 1980, that figure had increased to 44.7 percent.

INCOME

Income data serve as another useful indicator of economic well-being. Montana per capita income has grown at approximately the national rate; sometimes faster, sometimes slower. However, since 1960, Montana per capita income has been roughly 12 percent lower than the national level. This consistent difference is illustrated in Table 5.

Although variations in regional per capita income have lessened over time, Montana has shown little sign of converging with the national average. The periodic ups and downs in Montana per capita income for the most part have been related to variations in farm income. The comparatively small variations in the national trend have been the result of business cycles, but agricultural states such as Montana are relatively insensitive to national cycles. Some effects are felt (e.g., in the wood products and metal mining sectors), but not to the degree experienced by the most industrialized states.

Much of absolute increase in income, both here and nationally, has been the result of inflation. For example, Montana's per capita income increased 230 percent between 1960 and 1978, while the real growth in

Table 5: Per Capita Income in Montana and the United States, 1960-1980, (current dollars).

Year	United States	Montana	% Difference
1960	$2,201	$1,983	9.9
1961	2,248	1,934	14.0
1962	2,353	2,246	4.5
1963	2,436	2,216	9.0
1964	2,572	2,239	12.9
1965	2,750	2,414	12.2
1966	2,963	2,602	12.2
1967	3,142	2,709	13.8
1968	3,401	2,860	15.9
1969	3,714	3,144	15.3
1970	3,945	3,428	13.1
1971	4,167	3,537	15.1
1972	4,515	4,092	9.4
1973	5,010	4,762	5.0
1974	5,448	5,087	6.6
1975	5,845	5,423	7.2
1976	6,374	5,769	9.5
1977	6,979	6,108	12.4
1978	7,735	7,195	7.0
1979	8,637	7,894	8.6
1980	9,521	8,536	10.3

Source: U.S. Department of Commerce, Bureau of Economic Analysis
Western Analysis, Inc.

purchasing power grew by a more modest amount, 49 percent. And, in Montana, real per capita income has actually declined marginally since 1973, the state's best agricultural year.

Aside from a few erratic changes, the result of exceptionally good or poor agricultural years, the composition of Montana income has followed the national trend, with total nonbasic income growing more than basic. This is not surprising because nearly all of the employment growth has occurred in the nonbasic sectors.

From 1973 to 1978, approximately 70 percent of the national income growth was found in the nonbasic category. In Montana, the figure was somewhat higher, reflecting proportionately faster nonbasic employment growth. Although farm income has declined by about one-half, the other basic income producing sectors such as mining and manufacturing have experienced increases comparable to the national growth pattern. Montana's overall basic income growth in 1981, however, will feel the strain of losses in wood products and smelting.

Table 6 illustrates the principal sources of income in Montana and the nation. Agricultural enterprises are clearly more important to the Montana economy than in most states. In fact, only North and South Dakota derive a higher percentage of their income from this source.

Manufacturing in Montana generates a much smaller proportion of overall income than the national average, while mining contributes a much greater percentage. Certain nonbasic sectors (trade, services,

Table 6: Income by Industry, Montana and the United States, 1974-1980.

Sector	Percent of Total (1974-1979)		Average Earnings Per Employee, 1980	
	Montana %	United States %	Montana	United States
Farm	8.4	3.1	$ 5,410*	$ 9,659
Mining	4.0	1.5	22,183	23,099
Construction	8.0	6.0	18,392	17,244
Manufacturing	10.6	26.0	16,983	17,443
Transportation/ Utilities	10.3	7.5	19,137	19,890
Trade	18.3	16.7	9,984	11,155
Finance	4.3	5.6	12,259	15,168
Services	14.8	16.6	8,988	12,238
Government	21.5	17.1	12,118	15,558

*Includes proprietors labor and farm service workers. Generally, farm earnings in Montana are well above the national figure, however, 1980 was a poor year for agriculture in Montana.

Source: United States Department of Commerce
Western Analysis, Inc.

construction, transportation, and government) account for approximately 70 percent of total income both in Montana and nationwide*.

POPULATION

Montana's population, like employment, has shown different behavior in the 1970's than in the previous decade, when economic growth was slow and many residents left the state to find work. Since 1970, the population flow has changed direction and approximately 33,000 individuals have migrated to Montana from other parts in the country.

Although Montana's rate of population growth has been 15 percent faster than the national norm, it has been 36 percent slower than the Rocky Mountain region as a whole.

Table 7 presents county and state-wide population changes since 1960. Forty counties lost population in the ten years from 1960 to 1970. Only twenty-two counties showed a decline in the last ten years. In most cases, the population decline was slower during the 1970s than during the 1960s. But, out-migration remains a problem for many areas both rural and urban. Unfortunately, out-migration usually consists of the young and talented.

Most of the population growth has occurred in few areas. Flathead, Gallatin, Lewis and Clark, Missoula and Yellowstone Counties account for

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*Strictly speaking, it may be appropriate to adjust out rail, heavy construction, federal government, and tourism-related income from the general "nonbasic" sectors noted above. If this were done, Montana's nonbasic percentage would be less than the 70 percent mentioned above.

Table 7: Population by County, 1960, 1970, and 1980.

County	1960	1970	Percent Change 1960-70	1980	Percent Change 1970-80
Beaverhead	7,194	8,187	13.8	8,186	--
Big Horn	10,007	10,057	0.5	11,096	10.3
Blaine	8,091	6,727	-16.9	6,999	4.0
Broadwater	2,804	2,526	-9.9	3,267	29.3
Carbon	8,317	7,080	-14.9	8,099	14.4
Carter	2,493	1,956	-21.5	1,799	-8.0
Cascade	73,418	81,804	11.4	80,696	-1.4
Choteau	7,348	6,473	-11.9	6,092	-5.9
Custer	13,227	12,174	-8.0	13,109	7.7
Daniels	3,755	3,083	-17.9	2,835	-8.0
Dawson	12,314	11,269	-8.5	11,805	4.8
Deer Lodge	18,640	15,652	-16.0	12,518	-20.0
Fallon	3,997	4,050	1.3	3,763	-7.1
Fergus	14,018	12,611	-10.0	13,076	3.7
Flathead	32,965	39,460	19.7	51,966	31.7
Gallatin	26,045	32,505	24.8	42,865	31.9
Garfield	1,981	1,796	-9.3	1,656	-7.8
Glacier	11,565	10,783	-6.8	10,628	-1.4
Golden Valley	1,203	,931	-22.6	1,026	10.2
Granite	3,014	2,737	-9.2	2,700	-1.4
Hill	18,653	17,358	-6.9	17,985	3.6
Jefferson	4,297	5,238	21.9	7,029	34.2
Judith Basin	3,085	2,667	-13.5	2,646	-0.8
Lake	13,104	14,445	10.2	19,056	31.9
Lewis & Clark	28,006	33,281	18.8	43,039	29.3
Liberty	2,624	2,359	-10.1	2,329	-1.3
Lincoln	12,537	18,063	44.1	17,752	-1.7
McCone	3,321	2,875	-13.4	2,702	-6.0
Madison	5,211	5,014	-3.8	5,448	8.7
Meagher	2,616	2,122	-18.9	2,154	1.5
Mineral	3,037	2,958	-2.6	3,675	24.2
Missoula	44,663	58,263	30.5	76,016	30.5
Musselshell	4,888	3,734	-23.6	4,428	18.6
Park	13,168	11,197	-15.0	12,660	13.1
Petroleum	,894	,675	-24.5	,655	-3.0
Phillips	6,027	5,386	-10.6	5,367	-0.4
Pondera	7,653	6,611	13.6	6,731	1.8
Powder River	2,485	2,862	15.2	2,520	-11.9
Powell	7,002	6,660	-4.9	6,958	4.5

Table 7: Population by County, 1960, 1970, and 1980 (continued).

County	1960	1970	Percent Change 1960-70	1980	Percent Change 1970-80
Prairie	2,318	1,752	-24.9	1,836	4.8
Ravalli	12,341	14,409	16.8	22,493	56.1
Richland	10,504	9,837	-6.3	12,243	24.5
Roosevelt	11,731	10,365	-11.6	10,467	1.0
Rosebud	6,187	6,032	-2.5	9,899	64.1
Sanders	6,880	7,093	3.1	8,675	22.3
Sheridan	6,458	5,779	-10.5	5,414	-6.3
Silver Bow	46,454	41,981	-9.6	38,092	-9.3
Stillwater	5,526	4,632	-16.2	5,598	20.9
Sweetgrass	3,290	2,980	-9.4	3,216	7.9
Teton	7,295	6,116	-16.2	6,491	6.1
Toole	7,904	5,839	-26.1	5,549	-4.8
Treasure	1,345	1,069	-20.5	,981	-8.2
Valley	17,080	11,471	-32.8	10,250	-10.6
Wheatland	3,026	2,529	-16.4	2,359	-6.7
Wibaux	1,698	1,465	-13.7	1,476	0.8
Yellowstone	79,016	87,367	10.6	108,035	23.7
Yellowstone Park	,047	,064	36.2	,275	330.0
State	674,767	694,409	2.9	786,690	13.3

Source: United States Bureau of Census
Western Analysis, Inc.

nearly two-thirds of the total state gain. Other gains have been made in counties adjacent to urban aras, such as Ravalli and Jefferson, and in counties experiencing coal development, and oil and gas exploration.

The unstabilizing effects of major changes in fertility rates (e.g., the baby boom and the "baby bust" of the 1970s) and volatile migration patterns have affected and will continue to affect Montana's population. Some cohorts, or age groups, have expanded dramatically but later will shrink abruptly as these waves occur. Other cohorts will shrink and then expand much faster than the overall population level, all as a result of changes which took place years ago but are only now being felt. Tables 8 and 9 illustrate the demographic changes which have occurred in the past twenty years. A few examples of issues caused by the changing demographic patterns are as follows.

* Declining elementary and high school enrollment. The number of elementary age children has fallen substantially more (both absolutely and as a percentage) than high school age individuals, however, the number of elementary age children is expected to rise by 1985. High school age individuals will decline until 1985 and increase again by 1990.
* Rising unemployment as a result of rapid increases in the number of new entrants into labor force.
* A dramatic increase in the demand for new homes and a host of other consumer products targeted at specific age groups. The post-war babies are now young adults with their own families.

Table 8: Montana Population by Age Cohort, 1960, 1970, and 1980.

	1960	1970	Percent Change 1960-70	1980	Percent Change 1970-80
School Cohort (6-13 years of age)	116,921	122,444	4.7	98,002	-20.0
High School (14-17 years of age)	45,189	60,638	34.2	57,477	-5.2
College Cohort (18-21 years of age)	33,480	47,382	41.5	59,878	26.4
High Crime Risk (18-34 years of age)	137,288	156,552	14.0	236,902	51.3
Labor Force (16-64 years of age)	370,573	402,314	8.6	500,714	24.5
Retirement (over 65 years of age)	65,420	68,736	5.1	84,559	23.0

Source: U.S. Department of Commerce
Western Analysis, Inc.

Table 9: Montana Population by Age and Sex, 1960, 1970, and 1980.

Age	1960 Male	1960 Female	1970 Male	1970 Female	1980 Male	1980 Female
Under 5	42,184	40,918	29,120	27,934	33,092	31,365
5-17	89,747	87,559	99,726	96,345	85,975	81,465
18-24	28,254	28,875	38,002	38,671	52,544	51,431
25-34	40,669	39,942	39,797	40,082	67,580	63,345
35-64	109,243	101,956	108,565	107,431	116,383	116,951
65 & Over	33,646	31,774	31,795	36,941	37,051	47,508
Total	343,743	331,024	347,005	347,404	392,625	394,065
Median Age	28.0	27.1	26.6	27.6	28.4	29.6

Source: U.S. Department of Commerce
Western Analysis, Inc.

* Rising crime rates related to a short-term swell in the number of young individuals who are more prone to commit crime.
* Increase in demand for housing, health-related and other programs aimed at the needs of the elderly and those on fixed incomes.

Future impacts will include:

* The impact on the university system may be greater or lesser than the numbers indicate. Enrollments will depend on young people's demand for higher education and the existence of substitutes (e.g., vocational and technical schools) for a college degree. There may also be a trend of older people returning to school or beginning a college career.
* Slower economic expansion but lower unemployment resulting from slower labor force growth.
* Mounting costs of retirement and health care programs as the population become older. The median age for both sexes in 1980 is higher than it was in 1960 and 1970, and is projected to increase further.
* Falling crime rates as the relative number of young people decline.

MONTANA'S BASIC INDUSTRIES

This section examines Montana's most important basic economic sectors and their roles in the state's economy.

WOOD PRODUCTS

The wood products industry is the largest contibutor to manufacturing employment in Montana. Earnings in wood products has accounted for more than 38 percent of total manufacturing income over the last five years. However, in 1980 earnings were 36 percent of the total, and nominal earnings fell about 10 percent from 1979. Employment was substantially below the record of 11,100 jobs in 1979. Total output (see Table 10) was down by 270 million board feet.

The decline in earnings, output, and employment indicate the sensitivity of the wood products industry to general economic conditions. The long period of high interest rates, (mortgage rates reached a record high of over 18 percent in October of 1981) has dealt a devastating blow to the industry. Unfavorable financial conditions in mortgage markets and high prices for new homes has depressed the housing market far below the projected 1981 housing starts of 1.4 million. Continued actions by the Federal Reserve Board to reduce interest rates, improved profitability in mortgage lending and stabilized housing prices, are some of the necessary elements required to improve the housing market.

Table 10: Montana Lumber Employment and Output, 1960-1980.

Year	Employment	Output* (Millions of Board Feet)
1960	7,300	1,035
1961	7,400	1,152
1962	8,000	1,259
1963	8,500	1,166
1964	8,400	1,271
1965	8,600	1,311
1966	8,900	1,375
1967	8,700	1,347
1968	8,900	1,499
1969	8,900	1,397
1970	8,200	1,281
1971	8,700	1,397
1972	9,200	1,311
1973	9,800	1,445
1974	9,500	1,165
1975	8,100	1,038
1976	9,100	1,197
1977	9,300	1,250
1978	10,700	1,256
1979	11,100	1,257
1980	8,800	983

*The production figure is measured in millions of board feet of cut timber and does not include processed materials.

Source: Western Wood Products Association
Montana Department of Labor and Industry
Western Analysis, Inc.

The demand for housing, and thus for lumber, will continue to increase as children of the baby boom buy homes. Potential demand may be as high as 2 million homes annually. The ability of private timber land to satisfy demand for lumber is doubtful, even though these lands supplied 25.5 percent of timber harvested in 1980 as compared to 12.5 percent in 1979 (see Table 11). Expanded timber production will have to come from the national forests and other public lands. To increase supply from public lands, the forest service will have to revise its planning and management practices to place more emphasis on intensive forestry management.

Outlook

Despite the pessimistic prospects for the wood products industry until at least mid-1982, the long-run outlook is reasonably good. The industry will remain a major factor in the Montana economy, particularly western Montana. It will also continue to be a dominant factor in the manufacturing sector, although the opportunity for long-term employment gains is slight. Because of the relative advantage in timber growing enjoyed by the Pacific Northwest and Southeast, growth in this sector will come through technological advances allowing for greater utilization and small log processing. Small producers will continue to find difficulty competing.

AGRICULTURE

Agriculture has been, and will likely continue to be, Montana's most important basic industry. For many years, farming

Table 11: 1980 Profile of Montana Sawmills.

Source of Timber	
Company Owned	25.5%
Federal	59.4%
Other	28.6%
Species Cut	
Douglas Fir & Larch	35.5%
Ponderosa Pine	9.6%
Engelmann Spruce	6.5%
Lodgepole Pine	15.6%
Idaho White Pine	1.8%
White Fir	5.7%
Western Red Cedar	1.2%
Other	24.1%
Degree of Processing	
Kiln dried	71.6%
Air dried	18.8%
Green	9.6%
Rough	3.4%
Surfaced	96.6%
Mode of Transportation	
By rail	41.1%
By truck	58.9%
Principal Markets	
California	4.6%
Other West	35.3%
Midwest	39.2%
Northeast	4.7%
South Central	5.7%
Southeast	9.4%
Export	1.1%
Distribution Channels	
Direct to user	6.8%
Direct to retailer	6.1%
Wholesaler	67.7%
Company owned distribution yards	14.7%
To factory for further manufacturing	4.7%

Source: Western Wood Products Association
Western Analysis, Inc.

and ranching in Montana have employed more people and provided more income than any other basic industry. But, similar to elsewhere, the trend in Montana has been toward larger and more technologically sophisticated operations. Total employment in agriculture is 18 percent less than it was in 1960. But production of cattle and grain has increased significantly over the years, as shown in Table 12.

Agricultural enterprises are relatively insensitive to general business cycles. However, output and income are extemely variable, nonetheless. Weather conditions and market prices greatly affect agricultural output. Wheat, and to a lesser extent, barley production is very sensitive to prices. Although cattle inventories are increasing in response to good prices, production is still below levels attained in the early 1970's.

Farm income, while difficult to measure with any degree of precision, fluctuates more erratically than output (see Table 13). Falling prices between 1973 and 1977 caused sharp declines in earnings. Income went up in 1978 and 1979 but fell precipitously again in 1980. Cash receipts, on the otherhand, do not vary as much as income. They reflect the level of agricultural buying, whereas income indicates how well individual farmers and ranchers are doing. Increased output and rising prices, especially in the export market, for both wheat and cattle should increase farm income in 1981.

Outlook

The most recent output projections for Montana agricultural products (Montana State University) indicate potential

Table 12: Montana Agricultural Output, 1960-1981.

Year	Cattle and Calves Production (1,000 lbs.)	Cattle and Calves Number* (1,000 head)	All Wheat Production (1,000 bu.)	All Wheat Harvested (1,000 acres)	Barley Production (1,000 bu.)	Barley Harvested (1,000 acres)
1960	789,875	2,245	79,397	4,088	40,444	1,721
1961	742,180	2,155	54,048	4,262	26,370	1,465
1962	737,845	2,133	79,332	4,248	54,961	1,802
1963	828,865	2,325	92,294	4,246	44,663	1,514
1964	927,420	2,672	93,752	4,156	49,692	1,529
1965	948,420	2,758	105,350	4,551	50,050	1,300
1966	985,385	2,841	99,694	3,885	63,564	1,651
1967	973,940	2,869	119,136	4,825	37,022	1,255
1968	1,062,930	2,984	125,869	4,722	42,735	1,155
1969	1,066,560	2,984	99,754	3,920	67,914	1,617
1970	1,089,015	3,014	85,167	3,506	65,132	1,714
1971	1,122,103	3,165	112,011	4,516	58,800	1,680
1972	1,103,350	3,165	98,831	4,130	64,013	1,707
1973	1,053,550	3,197	93,714	4,235	60,000	2,000
1974	1,035,930	3,380	120,108	5,020	37,120	1,280
1975	963,050	3,340	155,925	5,130	50,700	1,300
1976	967,940	3,150	167,295	5,415	52,065	1,120
1977	880,635	2,980	130,920	5,060	55,480	1,520
1978	941,570	2,680	146,050	4,840	56,375	1,375
1979	882,185	2,607	116,475	5,125	40,560	1,040
1980	995,375	2,645	119,800	5,100	44,100	1,050
1981	NA	2,675 E	172,830 E	5,820 E	56,760 E	1,320 E

*Inventory beginning of year.

Source: Montana Department of Agriculture
Western Analysis, Inc.

Table 13: Montana Agricultural Receipts and Income, 1970-1980.

Year	Cash Receipts ($ millions)	Farm Income* ($ millions)
1970	$689	$219
1971	695	176
1972	927	308
1973	1,192	530
1974	1,169	331
1975	1,018	343
1976	1,049	185
1977	1,027	33
1978	1,366	316
1979	1,405	201
1980	1,407	34
1970-1980 Average	1,086	243

*Includes proprietors income only.

Note: The decline in 1977 of farm income was for the most part the result of what is called on inventory adjustment, i.e., farmers and ranchers selling off production from previous years to cover operating losses. That is why income fell dramatically and receipts remained relatively constant.

Sources: Montana Department of Agriculture
Western Analysis, Inc.

gains of 33 percent (from 1977) in cattle and calf production by 1990. Increases in wheat and barley are expected to be thirteen and two percent respectively. However, these projections for Montana agriculture can be realized only if Montana retains its competitive strength relative to agriculture in other regions of the United States. However, agriculture may experience short-term bottlenecks in transportation with the loss of rail service due to the closure of the Milwaukee line and abandonment of unprofitable lines by Burlington Northern. In addition, unit loading (26 or 52 cars) may cause temporary problems for producers in areas which lose terminal facilities.

PRIMARY METALS

The closing of the Anaconda Company's smelter and refinery in Anaconda on September 29, 1980, represents one the the most significant job losses in Montana's history. This shutdown, although devastating, nevertheless should be viewed within a historical perspective. For example, we should not forget that over 1,200 jobs were lost at the smelter between 1950 and 1970. At Great Falls, 800 refinery jobs were lost between 1970 and 1974 and over 4,000 mining jobs were lost at Butte since 1950. The essential difference is that the Anaconda smelter closing was immediate and represented the only industry in the area. Also, the previous declines were the result of modernization of plant facilities as opposed to elimination. The action will probably result in the migration of several thousand people from the area in the next few years.

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The announcement in 1980 by Anaconda Copper President, James Marvin, has left about 1,500 highly paid employees out of work; 1,000 at Anaconda (about 800 live in Anaconda) and 500 in Great Falls. Marvin indicated that the mining and milling operations in Butte would not be affected. He went on to say that the decision to close the smalter and refinery was a matter of economics; i.e., low productivity, old plant equipment, and the high cost of retrofitting the old facility to meet new air quality standards, both state and federal. Because of the industrial linkages with the Great Falls electrolytic refinery, that facility also was closed even though there were no air quality problems.

The remaining Anaconda facility is the aluminum plant located at Columbia Falls. This operation, located near the Hungry Horse Reservoir, was developed largely because of inexpensive power. Potential changes in the BPA's rate structure may pose some cost uncertainties for the plant. Because the firm's input costs are geared toward the cheap and readily available electricity, a doubling or tripling of rates may result in a tight profit squeeze. In order to reduce potential impacts, the company is incorporating more energy-efficient processes. In December 1981, the plant announced that 110 workers would be laid-off because of reduced demand for output resulting from the continued recession and its effects on orders of durable goods utilizing aluminum.

A potential bright spot is the recent announcement by ALUMAX of consideration of Montana as a site along with a southeastern state, for a new aluminum manufacturing plant. Although a firm decision concerning

the plant and site is still three to six months off, and will be based on market conditions and more detailed site comparisons, if built here the plant could represent a major addition to the state's once strong primary metals industry.

MINING

Metal mining, like wood products, is sensitive to cyclical fluctuations in national markets, and to international markets as well. Weak markets, structural inefficiencies and competition from abroad adversely affect the demand for metals. However, long-run prospects appear favorable, particularly for energy minerals, because of the abundance of mineral resources in Montana. Production data for Montana's most important mining and extraction activities are shown in Table 14.

Copper

Copper is the most important non-fuel mineral produced in Montana. However, the market has been depressed since 1975. In November 1981, the world price for copper was $0.74 per pound, down from $1.40 in February. Thus, operations at the Butte facility are in jeopardy and due to the most recent price decline, ore production has declined from 55,000 tons per day to 44,000 tons per day. Officials report that operations at Butte will be studied on a month-by-month basis.

The copper industry is also hampered by international "dumping" at a price subsidized by foreign governments. United States consumers

Table 14: Montana Mineral Production, 1960-1980.

Year	Copper (short tons)	Coal (million tons)	Natural Gas (million cu. ft.)	Crude Oil (million barrels)
1960	91,972	NA	NA	NA
1961	104,000	NA	33,701	30,906
1962	94,021	NA	29,955	31,648
1963	79,762	NA	30,026	30,870
1964	103,806	NA	25,188	30,647
1965	115,489	NA	28,105	32,778
1966	128,061	NA	30,685	35,380
1967	65,483	NA	25,866	34,959
1968	69,480	NA	19,313	48,460
1969	103,314	NA	41,229	43,954
1970	120,412	NA	42,705	37,879
1971	88,581	7.1	32,720	34,599
1972	123,110	8.0	33,474	33,904
1973	132,446	10.4	56,175	34,620
1974	131,131	13.6	54,873	34,554
1975	87,959	22.1	40,734	32,844
1976	91,111	26.2	42,563	32,814
1977	86,203	27.4	48,663	32,680
1978	67,326	26.6	47,140	30,467
1979	68,854	32.6	54,969	30,286
1980	45,061	30.0	53,802	29,584

Source: United States Department of Interior, Bureau of Mines
Montana Department of Labor and Industry
Montana Department of Natural Resources
Western Analysis, Inc.

benefit from lower prices at the expense of foreign taxpayers. But, because "dumping" reduces employment in the affected industry, a policy which permits such "free-trade" may be too costly in political terms, not only as it concerns copper mining, but as it concerns such industries as steel, electronics, and automobiles.

Outlook - The short-run outlook is not favorable for copper mining. The years 1978, 1979, and 1980 were not good years for copper production, nor will 1981 be much better. Lack of demand for products using copper and foreign competition will continue to hurt the industry. Nevertheless, national projections indicate increasing production for the next 10-15 years. Recovery will be aided by turnarounds in both the housing and automobile industries. As many as 400 new jobs could be created by 1985 if underground operations are resumed at Butte. The new ASARCO mine at Troy employs some 300 persons. The potential exists for other new mines, particularly for the platinum group metals and chromium in the Stillwater Complex and other pimary metals in southwestern Montana.

Oil and Gas

Oil and gas exploration activity resulted in significant gains in employment and earnings since the mid-1970s. Employment in this sector increased by about 2,000 since 1975 and the $90 million earnings increase accounted for over 40 percent of the increase in basic earnings in Montana. This was due to rising fuel prices and the resultant intensification of exploration activity and experimentation in secondary and tertiary recovery techniques.

Declining domestic reserves, curtailment of Canadian gas imports, and rapidly rising prices have resulted in stepped up gas exploration in Montana. Canadian export reductions have been more than offset by increased Montana production and reduced consumption -- related to very rapidly increasing prices, and a decline in industrial use. Further, a recent study suggests that Montana appears to be assured of a good gas supply through the end of the century.

In the past decade, rising crude oil prices have increased the price of refined oil products. Consumer demand worldwide has fallen far short of existing refining capacity due to the shift toward more efficient autos and, lately, the economic recession. The economic consequence is that some refineries will be forced to close as profit margins fail to cover operating costs. Such factors as efficiency, location, product mix and crude oil requirements will determine whether a particular refinery will survive.

The petroleum refineries in Yellowstone County face a double edged blade. First, the major source of crude oil from Canada will be cut-off after 1982. Finding a suitable supply will be difficult because these refineries are geared toward low sulpher Canadian crude. Second, a degree of uncertainty will continue to exist until the effects of decontrol work through the system. Any significant change in this sector which employs 1,100 workers will have an impact on the Billings economy.

The most significant event in the oil and gas markets in 1981 was the removal of federal price and allocation controls by President

Reagan. Decontrol and the high success ratio of new wells will encourage further exploration efforts. Exploration will no doubt continue in the Sidney and Glendive areas, the Williston Basin, the Sweet Grass Hills, and the rest of the Overthrust Belt region.

Outlook - Employment and earnings in oil and gas should continue to expand as Montana's resource base becomes more fully explored and the United States seeks to become energy independent. Major alternative energy sources are more likely to be developed as a result of decontrol of oil and gas. Refinery production will probably be level or decline slightly until new sources of crude oil are secured and adjustments in product mix are attained.

Coal

The importance of coal as a national energy source increased dramatically as a result of the Arab oil embargo of 1973 and President Carter's decision in 1977 to expand coal production to replace foreign oil consumption. Recently, the Reagan administration has further emphasized the leasing of western coal as a means to provide future U.S. energy needs. In addition, U.S. coal is looking more attractive to other oil importing countries. The turmoil in Iran, the continuing rise of oil prices, the withdrawal of Poland from the European market and the desire of Pacific Rim countries to broaden their sources of imported coal have contributed to the increase in international demand for American coal.

The impact of these initiatives on Montana is not clear. Because of a lower BTU content than eastern coal and high transportation costs,

the levels of future growth in coal mining will largely depend on demand for electricity in the midwest and south central markets. Future demand levels in these markets will depend on population growth, conservation, and the switching to coal from oil and gas for industrial energy needs. Further revisions in U.S. Environmental Protection Agency emission standards could also affect the relative economic value of western vs. eastern coal.

The export of coal to the Pacific Rim could increase Montana coal production by 10 million tons per year. Increased exports, though, are contingent upon development of port capacity in Oregon or Washington. Developers are becoming more interested in the potential for coal handling port facilities, but are hesitant to commit without secured coal supplies and long-term purchase committments.

Outlook - Colstrip 3 and 4, scheduled to go on line in 1984, will increase the amount of coal mined in Montana. A new NERCO mine at Spring Creek is scheduled to produce 5 million tons of coal this year, which should increase 1981 coal production by about 15 percent over 1980 production. Projections of coal production by 1990 range from a low of 60 million tons to a high of 100 million tons, adding 1,500-2,500 new jobs in the coal producing areas. Actual production will depend on the many factors mentioned above.

REGIONAL ECONOMIC TRENDS AND CONDITIONS

Economic conditions in Montana vary between different areas of the state. The eastern two-thirds of Montana is on the Great Plains, and is characterized by dryland grain farming, irrigated strips, grazing rangeland, large ranching operations, and by oil and natural gas wells and coal mines. The state's two largest urban areas, Billings and Great Falls, are found here. In addition, more medium-sized trade centers and numerous small towns dot the landscape.

The western third of the state lies within the northern Rocky Mountains. This is an area of spectacular scenery and outdoor recreation, timber harvesting and wood processing, mining and mineral processing, irrigated farms and mountain ranches, and populated pockets and virtually uninhabited wildlands. Because of continued in-migration and generally greater job opportunities, most of the state's larger urban areas are found here.

In order to disaggregate the state's economy, it is necessary to delineate the regions with some degree of homogeneity. Although this is difficult to do with any degree of precision in a large rural state like Montana, the Montana Department of Labor and Industry has divided the state into 14 Labor Market Areas (LMA's) which roughly approximate local trade areas, with several notable exceptions (see Map 1). In the eastern and western parts of the state, trade will leak to neighboring states. Also, Yellowstone and Cascade Counties (Billings and Great Falls) draw significantly from surrounding counties, but are treated as separate LMA's.

MAP 1
LABOR MARKET AREAS IN MONTANA

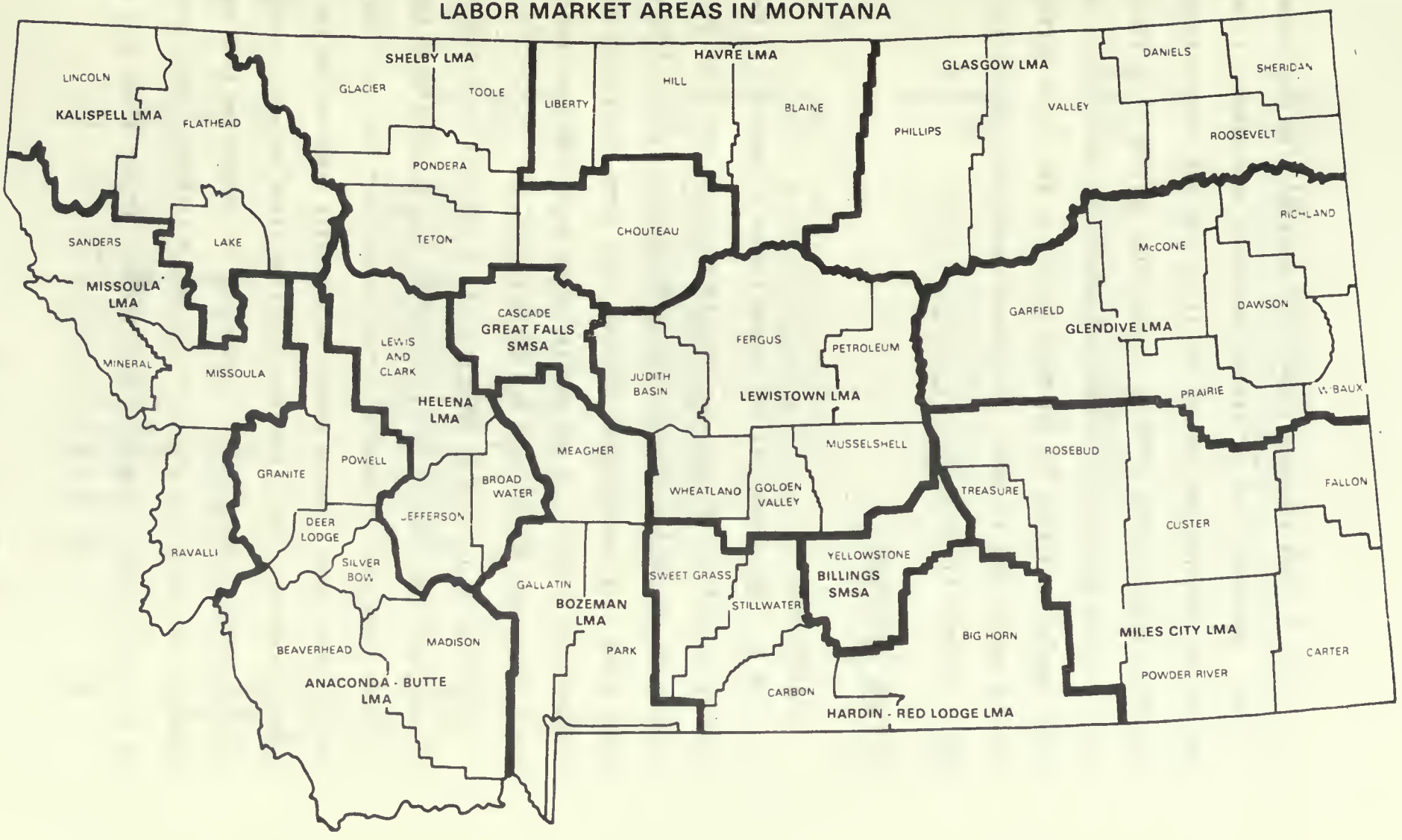

Table 15 shows comparative data for the LMA's for the period 1970 to 1980. Employment and population growth has been greater in western Montana than the eastern part of the state with one notable exception. The Anaconda-Butte area suffered a population decline as a result of reduced mining and the loss of mineral processing facilities. Table 16 shows population trends for the major cities of each labor market area for the period 1960 to 1980. The current employment composition in the LMA's is shown in Table 17.

REGIONAL CONDITIONS

Yellowstone

The Billings economy is the growth leader in Montana; it has the greatest population of any urban area in the state and since 1970, has enjoyed the greatest employment growth (55 percent) of the five major urban areas. Its unemployment rate has been three-fourths of the state average and, in 1979, the per capita income in Yellowstone County was about 15 percent greater than the state average.

Billings is growing in importance as a regional trade center for the northern Great Plains area, stretching from western North Dakota to northern Idaho and the Canadian border to northern Wyoming. There is some evidence that a recent growth in wholesale trade may be due to a decentralization of this industry away from large regional trade centers toward smaller trade centers. Supporting its importance as a trade center is the fact that almost 19 percent of Billings' total employment is in retail trade, compared with 15 percent for the state as a whole.

Table 15: Montana Labor Market Area Economic and Demographic Conditions, 1970 and 1980.

Labor Market Area	Population 1980	Population 1970-80 (% Change)	Employment 1980	Employment 1970-80 (% Change)	1980 Employment Ratio	1980 Unemployment Rate	1979 Per Capita Income
Yellowstone	108,035	23.7	54,139	55.1	50.1	4.6	8,893
Cascade	80,696	-1.4	31,831	15.9	39.4	6.9	8,094
Missoula	110,859	34.0	45,944	47.1	41.4	7.7	7,567
Kalispell	88,774	23.4	34,331	39.3	38.7	9.4	7,142
Anaconda/Butte	73,902	-7.9	33,229	13.1	47.4	6.7	7,523
Bozeman	57,679	25.9	25,082	33.1	43.5	5.4	6,999
Helena	53,335	30.0	27,061	49.7	50.7	5.1	8,372
Shelby	35,501	-0.9	17,193	24.3	48.4	5.3	7,305
Glasgow	34,333	-4.8	16,409	25.9	47.8	4.0	5,966
Miles City	32,071	14.0	15,845	38.7	49.4	4.0	7,143
Glendive	31,718	9.4	15,313	33.6	48.3	2.5	7,026
Hardin/Red Lodge	28,009	13.2	13,137	42.1	46.9	4.6	6,357
Havre	27,313	3.3	12,129	27.0	44.4	5.9	6,404
Lewistown	24,190	4.5	10,359	12.6	42.8	4.3	6,924
STATE	786,690	13.3	352,002	34.8	44.7	6.0	7,528

Source: U.S. Department of Commerce
Montana Department of Labor and Industry
Western Analysis, Inc.

Table 16: Selected Cities Population, 1960-1980.

	1960	1970	1960-70 % Change	1980	1970-80 % Change
Billings	52,851	61,581	16.5	66,581	8.5
Great Falls	55,244	60,091	8.8	56,725	-5.6
Missoula	27,090	29,497	8.9	33,388	13.2
Kalispell	10,151	10,526	3.7	10,648	1.2
Butte	27,877	23,368	-16.2	37,205*	--
Anaconda	12,054	9,771	-18.9	12,518*	--
Bozeman	13,361	18,670	39.7	21,645	15.9
Helena	20,227	22,730	12.4	23,938	5.3
Shelby	4,017	3,111	-22.6	3,142	1.0
Glasgow	6,398	4,700	-26.5	4,455	-5.2
Miles City	9,665	9,023	-6.6	9,602	6.4
Glendive	7,058	6,305	-10.7	5,978	-5.2
Hardin	2,789	2,733	-2.0	3,300	20.7
Havre	10,740	10,558	-1.7	10,891	3.1
Lewistown	7,408	6,437	-13.1	7,104	10.4

*Consolidated city-county government area.

Source: United States Bureau of Census
Western Analysis, Inc.

Table 17: Percent of Employment by Labor Market Area, 1979.

	Anaconda/ Butte	Billings	Bozeman	Cascade	Glasgow	Glendive	Hardin/ Red Lodge
Agriculture	6.9	3.1	8.0	3.0	25.2	21.6	23.6
Mining	7.3	0.8	0.3	0.0	2.0	6.0	8.1
Construction	2.5	4.9	4.5	5.1	2.1	4.9	3.3
Manufacturing	7.1	8.4	7.7	4.4	2.7	3.1	1.5
Transportation/ Communications	5.1	7.8	6.8	4.9	4.8	9.5	2.9
Trade and Service*	47.6	60.2	52.5	54.7	44.7	40.4	40.4
Government	23.5	14.7	20.2	27.9	18.5	14.5	20.2
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

	Havre	Helena	Kalispell	Lewistown	Miles City	Missoula	Shelby
Agriculture	18.0	4.0	7.4	25.1	18.5	4.1	23.4
Mining	0.7	0.2	0.7	2.6	4.8	0.2	6.3
Construction	3.4	3.5	5.3	4.3	4.8	5.3	2.8
Manufacturing	2.4	5.7	17.5	3.5	1.6	13.6	1.8
Transportation/ Communications	9.0	7.1	5.6	4.5	6.7	6.4	4.4
Trade and Service*	47.1	50.2	46.6	42.3	43.9	52.0	42.6
Government	19.5	29.3	16.9	17.6	19.6	18.4	18.3
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Includes non-farm proprietors.

Source: Department of Commerce
Western Analysis, Inc.

Billings is also becoming an important location for the regional offices of mining and energy related companies, and those manufacturing and service industries which support the oil, gas, and coal mining development taking place in the northern Great Plains.

Finally, Billings has the most diversified economy of any LMA in the state. The rate and magnitude of its growth, coupled with its size, simply means that a more diverse array of derivative economic sectors can be supported. Primary economic activity in the area is driven by various industries, including oil refining, food processing, the federal government, agriculture, export components of wholesale and retail trade, and education.

Unlike what occurred during the 1973-1975 recession, Billings may be affected by the current downturn. Excess capacity in coal production, railroad layoffs, idle modular home production and retail closures will affect the Billings economy.

Cascade

Cascade County, the site of the city of Great Falls, was one of only four LMA's in the state which had a net decrease in population during the 1970s. Although employment grew 16 percent over this time period, this was the third slowest rate of growth of the LMA's, and only one-half that of the statewide average. In 1980, the Cascade County unemployment rate was 15 percent greater than the state average, although in 1979 the per capita income was about 7 percent above the figure for the state as a whole. This may be due to the salaries

associated with Malmstrom Air Force Base, which directly and indirectly contributes to about one-half of the economic base in Cascade County.

The relatively slow economic growth in Great Falls can be traced primarily to several major cutbacks since 1970 in federal military and civilian employment and primary metals refining. Cutbacks at the air base in 1976 and 1979 have resulted in the loss of about 1,800 permanent civilian and military jobs. Anaconda's zinc smelter closed in 1973 with a loss of about 1,000 jobs. Also, about 200 workers lost their jobs when some railroad positions were transferred and a meat packing plant was closed in the mid-1970s. These cutbacks alone resulted in the loss of roughly one-fourth of the economic base in the county. More recently 500 employees lost their jobs when Anaconda closed the copper refinery plant.

Despite these losses to the Great Falls economy there are positive signs of growth. The export component of retail and wholesale trade will likely grow in service to north central Montana. Its role as a regional trade center will be enhanced with the proposed development of a convention center. Growth will also come from continued oil and gas exploration, and a 350 megawatt coal-fired power plant scheduled for construction in the mid-1980s.

Missoula

The Missoula LMA includes four counties west of the Continental Divide and bordering Idaho. Its economy is dominated by Missoula County which has almost three-fourths of the LMA's employment and serves as a regional trade center for the four county area. The Missoula LMA had

the highest population growth rate since 1970 in the state. Unemployment is generally higher in the area and per capita income lower, partly the result of the student population.

About one-half of the economic base in the LMA is due to the local forest resources. About 33 percent of the state's timber harvest comes from this LMA, which produces over one-third of the state's lumber. Missoula has the state's only pulp and paper plant which provides about 670 jobs; two plywood manufacturing facilities; and a particleboard plant which opened during the last decade. In addition, the U.S. Forest Service, BLM, and Montana Division of Forestry employ about 1,100 people in Missoula. Mineral and Sanders Counties are heavily dependent on wood products and several small communities are largely one-industry towns. Some smaller mills have closed since 1970, notably in Plains and Hamilton.

Unemployment in Missoula's wood products sector will continue to be high until recovery occurs in the housing market. Even though there have been some temporary layoffs, the pulp and paper mill provides some stability to the economy because it is not as sensitive to downturns as is the rest of the wood products industry.

Another major factor in the area's economic base is the University of Montana, which contributes approximately 15 percent of all economic activity. Its relative importance may be less in the future as the community grows and student enrollment declines.

Kalispell

The Kalispell LMA includes three northwestern Montana counties bordered by Glacier National Park on the east, Flathead Lake on the

south, and Idaho and Canada. Flathead County contains about 60 percent of the LMA's employment and population, and was largely responsible for the over 39 percent increase in employment since 1970. On the other hand, significant in-migration and the seasonality of employment has caused the area to have the highest unemployment rate in the state.

The economic base is heavily reliant on the wood products industry. Over one-half of Montana's timber harvest comes from the three counties. About 37 percent of all economic activity is related to wood products processing. Many small communities are reliant on the areas forest resouces for their livelihood.

The other major employer in the area is the Anaconda Aluminum smelter in Columbia Falls which employs about 1,270 people. Production cut-backs and layoffs have occurred as a result of the national recession and increasing energy costs. One bright spot in the area's economy is the opening of the ASARCO copper mine at at Troy. It currently employs slightly over 300 workers.

Travel and tourism also play a major role in the local economy. Flathead Lake, Glacier National Park, and Big Mountain ski area are major draws. In addition, many second homes are being built in the area. As a result, the trade and tourism industry contributes about 10 percent of the employment in Flathead County.

Anaconda/Butte

The Anaconda/Butte LMA encompasses six southwestern Montana counties, and is dominated by the cities of Butte and Anaconda, which

contribute about two-thirds of the area's economic activity. The other counties area largely rural and dependent on ranching and livestock-related agricutural production, and some small logging and wood processing activities.

This LMA has had the slowest rate of employment growth in the state and an 8 percent loss in population since 1970. The unemployment rate of the area has been consistently above the state average, wholly due to the high rate of joblessness in Butte and Anaconda. Per capita income levels are close to the state average and are dependent upon employment levels in the mining and mineral processing sectors and the price of agricultural products in the more rural areas.

The loss of roughly 3,200 copper mining and mineral processing jobs since 1970 in Anaconda and Butte is the major factor behind the region's stagnant economy. The closing of the Anaconda Company's smelter in 1980 and the loss of 1,000 jobs devastated the economy of the city of Anaconda. Current employment at the facility is restricted to mothballing operations,. In 1981, 800 miners were laid-off at Butte. Without new development high unemployment and out-migration will continue to plague the area.

Since 1970, the Montana Energy Research and Development Institute and the MHD Component Development and Integration Facility have brought nearly 400 high paying professional positions to the Butte area. These have helped to lessen the blow of the loss of underground mining in Butte. However, the continued existence of these research facilities is largely dependent on federal funding.

The Montana College of Mineral Sciences and Technology is situated in Butte and is one of six branches of the state university system. It has about 1,000 full-time students and is one of the few full-time mining engineering universities in the country. It has enjoyed increased enrollment over the past few years. Unlike Montana Tech, Western Montana in Beaverhead County is the smallest of the units of the university system.

State government institutions play an important economic role in Powell and Deer Lodge Counties, contributing 30 and 25 percent respectively, of the economic activity in those areas. Since 1970, the state prison and two mental institutions have added about 100-200 jobs in this LMA. However, the closure of the Milwaukee Railroad in Deer Lodge and lumber mill in Phillipsburg has meant a direct loss of 200-300 jobs since 1975.

Major efforts will be required in the Butte/Anaconda area to revitalize the stagnant economy. The smelter at Anaconda may be used for refining copper slag. However, employment would be provided only for the mothballing crews. ALUMAX has announced that the area is one of two potential sites in Montana for a proposed aluminum smelter which, if built, could provide many high paying jobs. However, continued low copper prices could further jeopardize the remaining miners in Butte. The immediate outlook, unfortunately, is for continued economic dislocation.

Bozeman

The Bozeman LMA is north of Yellowstone National Park in southcentral Montana and includes three counties, dominated by the city of Bozeman and Gallatin County, which contain over three-fourths of the economic activity in the area. The Bozeman LMA, since 1970, has had twice the rate of population growth (25 percent) as has the state as a whole, but has had about the same rate of employment growth (33 percent). Per capita income is 7 percent below the state average; again possibly related to the student population.

Gallatin County is the home of Montana State University, which enrolls about 11,000 students. It is the largest of six units in the Montana University System. Its enrollment is expected to stabilize and perhaps decline by the mid-1980s. The university contibutes about 30 percent, directly and indirectly to the economic activity in the area.

Several other basic industries contribute to the areas economy: timber and wood processing, travel and touring, agriculture, and several small manufacturing firms. The three counties have 22 small wood processing plants, most of which are important contributors to the rural communities. Summit/Dana Industrial (electronic equipment), Ideal Cement, and Gallatin Homes Corporation have also been important contributors to the growth of Gallatin County since 1970.

Tourism provides between 10 and 15 percent of all the jobs in Gallatin and Park Counties. Yellowstone Park, Big Sky ski resort, and Bridger Bowl are all located in or adjacent to the Bozeman area.

Agriculture production is one of the most diversified in the state. Ranching and irrigated and non-irrigated feed grain production are important to the area. A proposed regional agricultural marketing center at Belgrade will enhance this importance, if developed.

Helena

The Helena LMA comprises three counties in the west central part of the state, and is dominated by the city of Helena, in Lewis and Clark County. Helena is the state capital, and the growth since 1970 in state and federal government and associated employment has been the major impetus behind the 50 percent growth in employment in the LMA over the same period of time. The 30 percent growth in population in the LMA was the second highest of any LMA in the state. Recently, the unemployment rate and per capita income here have begun to approach the state average. Also, proportionately more people are working in this LMA, as a percent of the population, than any other in the state.

The economic growth of the last decade in Lewis and Clark County may not continue into the early 1980's as a result of cutbacks in state government. Federal budget reductions may mean the loss of 400 to 500 state jobs state-wide through reduction-in-force layoffs and attrition. A major share of these losses will be in Helena. State government accounts for 40 percent, directly and indirectly, of all economic activity and for two-thirds of non-farm income in the county.

There have also been employment cutbacks at the Boulder River

School in Jefferson County. The institution until recently provided directly and indirectly for 40 percent of the economic activity in the county.

Interestingly, federal employment in Helena has to date been little affected by the budget cuts. The situation is not clear, but federal employment in 1981 may not be much different than employment in 1979, which accounted for 1450 jobs. Mountain Bell's state headquarters and the ASARCO lead and zinc smelter in East Helena provide about 1,100 jobs.

Agriculture still plays a major role in Broadwater County, where 27 percent of the total personal income is farm-related. The operations there and in the rest of the LMA are mostly livestock-related.

Shelby and Havre

The Shelby and Havre LMA's comprise eight rural counties in north central Montana, bordered on the west by Glacier National Park. The rate of employment increase there was two-thirds of the state average. Population grew slightly in the Havre LMA, 3 percent, while employment growth was near the statewide figure. Per capita income in this area in 1978 was about 10 percent greater than the state average, due to the fairly stable population and relatively prosperous agricultural base. However, in 1979 per capita income was the third lowest in the state because of drought in the area.

Agriculture is the major economic sector, contributing directly 15-20 percent of the area's income. It is the lifeblood of many of the

small communities which dot the landscape. Agricultural operations are mainly dryland farming. Wheat is the principal crop, although increasing amounts of barley are produced. Five of the ten top producing wheat counties, and five of the six top barley producing counties are located in these LMA's. Based upon statewide figures, about three-fourths of the area's wheat moves to the west coast, and eventually to Asian markets. About three-fourths of the state's barley output is sold to in-state feedlots.

The location of Glacier County, at the eastern entrance to Glacier National Park, is the reason why 18 percent of its total employment is travel-related. It has the highest such rate in the state, largely because there is very little other nonagricultural economic activity.

About 20 and 50 percent respectively of the state's oil and natural gas is produced in these LMA's. Until 1978 there were two oil refineries in the Shelby LMA, today only one remains open at Cut Bank. It is likely that this region's share of oil and gas production will be maintained because of the increase in oil and gas exploration in the area and the likelihood that additional economically recoverable reserves will be located along the eastern ridge of the front range and around the Tiger Ridge field.

Much of the local retail and wholesale trade not flowing out of the area to Great Falls, which is right outside the southern border of the LMA, goes to Havre, which is the largest town in the area. In addition, Havre has a concentration of rail related employment--it is the principal stop for Amtrak and Burlington Northern. Finally, Havre is the home of Northern Montana College, which employs roughly 200 people.

Glasgow

The Glasgow LMA consists of five counties in the state's northeastern corner. This LMA has experienced a 5 percent decrease in population over the last 10 years due to out-migration of young people and a relative lack of job opportunities. Its rate of employment growth is approximately 75 percent of the statewide average. The LMA unemployment rate is, at 4.0 percent, 30 percent below the state average, consistent with other predominantly agricultural counties.

The LMA's economic base is almost totally agricultural. Two of the counties ranked first and second in durum wheat production and four of the counties were in the top four in spring wheat production. In addition, three of the counties ranked in the top four in oat production. Livestock operations play a lesser role, although they are prominent in the two western counties. Valley County experienced the greatest absolute population decrease in the LMA, and the slowest rate of employment growth. Contributing factors were the loss of 200 federal civilian and military positions and roughly 300 manufacturing jobs. Roosevelt County has had the largest employment gain, with an increase of about 50 jobs in oil and gas production and approximately 200 in manufacturing. In addition, the federal immigrant relocation center will directly provide about 300 new jobs in Valley County by mid-1982.

Glendive and Miles City

The Glendive and Miles City LMA's are located in southeastern Montana and comprise twelve highly rural and agriculturally-based

counties. Employment has grown about 35 percent since 1970, about the statewide average, while population has grown about 12 percent. The unemployment rate is similar to that found in the other agricultural areas, about one-third less than the rate for the state as a whole. Per capita incomes are slightly lower than the state average. Almost one-fourth of Montana's total of cattle and calves is found in these two LMA's. With the exception of the fertile valleys along the Yellowstone and other major tributaries, the land is principally used for livestock production. Also, about one-half of the state's sheep and lamb population is found here.

The area's importance in terms of coal, oil and gas production is indicated by the fact that Richland County, the home of Sidney, and Rosebud County, the home of Colstrip and Forsyth, are the LMA's leaders in terms of employment growth. Since 1970 there has been an increase of about 400 and 550 jobs in coal mining and oil and gas production respectively. These figures indicate only the direct impacts of these growth sectors and do not include the indirect benefits in the construction trade and transportation areas. Miles City in Custer County, Forsyth in Rosebud County, and Sidney in Richland County have benefitted by being the principal trade centers in this energy development area. Proposed new mines and coal conversion facilities announced by Tenneco and Montana-Dakota Utilities, and the current rate of natural gas and oil exploration in the Williston Basin area, indicate that the next decade probably will see continued energy mineral development. The new NERCO mine, and Western Energy and Montana Power

Company's expansion (Colstrip 3 and 4) will also add new jobs to this region.

It should be pointed out that the area's growth has not been evenly distributed. Garfield, McCone, Treasure, Carter and Powder River counties, those farthest removed from the Yellowstone River transportation corridor, have experienced absolute employment and population declines since 1970.

Hardin/Red Lodge

The Hardin/Red Lodge LMA consists of four rural counties in the south and west of Yellowstone County. Although the rate of growth here was similar to that of the state as a whole, one county, Big Horn, accounted for two-thirds of the area's employment growth. This was due principally to the growth of coal mining. The area's unemployment rate is about four-fifths of the state average and, in 1979 this LMA had the second lowest per capita income in the state. This is due largely to the low per capita incomes in Stillwater and Carbon counties, which had relatively larger than average ratios of population to employment gains. These counties, apparently, are becoming home to people who are working in Yellowstone County, but who elect to live in the rural, less congested outlying counties.

Since 1970, Big Horn County experienced an increase of 800-900 jobs in coal mining. In 1978, coal mining directly accounted for 37 percent of the county's income. The total economic impact of coal mining would be larger than that. The LMA otherwise is highly agricultural, with mostly livestock and feed grain operations. Two of the top five sheep

producing counties in the state are in the LMA, as well as one of the top four cattle and calf producing counties. Alfalfa hay is a major feed crop produced here.

Lewistown

The Lewistown LMA comprises six agricultural counties in the central part of the state. Its rates of employment and population growth since 1970 have been one-third of the respective rates for the state as a whole. Since 1970, employment levels actually declined in four of the counties; only Musselshell and Fergus had gains. The LMA consistently has an unemployment rate below the state average; a common occurrence for a rural area.

The area is dominated by Fergus County, which contains over one-half the total LMA employment and which contributed 75 percent of the net employment gain. This trend is due to the highly stable economies of the other five agricultural counties and the fact that Lewistown, the county seat of Fergus County, is the area's largest town and trade center. Between 1970 and 1978 this county had an increase of roughly 450 jobs in the trade and service sectors. A major economic disruption has recently occurred in Harlowton in Wheatland County, where the closure of the Milwaukee Railroad means the loss of roughly 160 high paying jobs.

Agriculture in the area is mixed, consisting of both food and feed grain production, and cattle and calf operations. Agriculture is the lifeblood of the entire LMA, contributing directly about 35 percent of the area's personal income. Were it not for agriculture, most of the area's small communities would cease to exist.

TRANSPORTATION

Transportation has been a stimulant and an integral part of the growth of all large civilizations and societies. As societies become more specialized and diverse, the importance of effective transportation increases--it becomes critically important to large industrialized societies. Without ready (and affordable) access to raw materials and markets for finished products, most specialized societies must contract. Similarily, without transportation resources, undeveloped areas cannot grow.

The development of the United States as an industrial and agricultural grant was no exception to the phenonmenon. Exploitation of plentiful raw materials and marketing of finished products on a scale sufficient to sustain heavy industry awaited the development of more effective transportation technology and systems. The nature of today's economy is a testament to the effectiveness of the nation's transportation systems. Few regions of the United States are self-sufficient--most are specialized in terms of their production and are dependent upon other regions for markets and for the generation of other goods or resources.

Montana's growth as a supplier of raw materials and foodstuffs also coincided with the development of effective transporation routes through its bounds. Prior to the arrival of rail service, relatively little was shipped from Montana. Those products that were exported were largely refined ore products. Rail service allowed the shipment of concentrated metallic ores, timber and lumber products, livestock, and, later, grain in sufficient quantities to warrant the growth of a Montana economy

based upon the export of natural resources. Montana's economy still is an export-based economy and, consequently, it still is critically dependent upon transportation services--more dependent, in fact, upon transportation providers than the providers are upon it.

The success of the transportation system are, in part, responsible for the problems faced by it today. The regional specialization permitted by the transportation network of the nation has resulted in increasing concentration of people and productive activities, in smaller and smaller spaces, and a corresponding depopulation of other areas. This concentration places increasing strain upon the transportation system that engendered it and, in addition, tends to weaken alternative forms of transportation. Conversely, the depopulation of rural areas has made continued transportation services there less profitable.

Today, many of the nation's transportation systems are in disarray and disrepair. Railways are curtailing operations, several have gone bankrupt or are on the verge of doing so, and others are faced with large capital investments to repair or replace roadbeds and rolling stock. The nation's port facilities reportedly are overcrowded and are unable to efficiently process the quantities of various commodities intended for foreign markets. Lock systems on the inland waterways are obsolescent and inadequate to quickly serve the numbers and current sizes of traffic. Highway systems, nationwide, are deteriorating at the same time that revenues derived from fuel taxes are declining, that costs of maintenance and repair are increasing, and that federal support systems are being reduced. The nation's largest airports are congested and urban traffic and mass transit systems are struggling to cope with costs and the mass of people to be moved.

The development, operation, and maintenance of effective transportation systems, particularly in undeveloped areas, requires immense capital investment. Historically, the development of extensive transportaton networks in distant or undeveloped areas has been undertaken either as a public venture or with substantial public subsidy. Lock, port, canal, and highway systems have developed as governmental projects. The extension of railways across the United States was supported by large land grants. Air terminals also are supported by public bond issues and other sources of public revenue. As the size and complexity of transportation systems increase, so also does the need for public investment in them--few, if any, corporations have sufficient capital to invest in the facilities that support the nation's transportation system.

It is unfortunate that today, when so many transportation resources are approaching a state of irrevocable disrepair, the institutional arrangements created to support those revenues are inadequate. Further, government and the public appear increasingly disinclined to protect their investment with further investment in needed repairs and modification.

TRANSPORTATION RESOURCES IN MONTANA

Rail Transporation

Montana is served by four Class I , one Class II, and one Class III rail carrier. The Class I carriers are the Burlington Northern (BN), the Milwaukee, the Soo Line, and the Union Pacific railroads. Class I carriers are defined as those with annual total gross revenues in excess

of $50 million. Class II carriers are those with annual total gross revenues of between $10 and $50 million. Class III carriers are those with total gross revenues of less than $10 million a year.

Collectively, the rail carriers in Montana operate about 4,000 route miles of track. The Burlington Northern operates 3,520 route miles (approximately 88 percent) of that total, covering all portions of the state. The Milwaukee Road continues to operate about 280 route miles of track east of, and terminating in, Miles City. The Soo Line and the Union Pacific operate 56.9 and 133.3 route miles of track, respectively. The Soo Line serves the far northeastern corner of the state; the Union Pacific operates a line that roughly parallels Interstate Highway 15 and terminates in Butte.

The Class II and Class III carriers still operating in Montana are the Butte Anaconda and Pacific and the White Sulphur Springs and Yellowstone Park railroads. The owner of the latter has announced his intentions to terminate operations since his railroad has been isolated by the abandonment of the Milwaukee Road.

The Butte Anaconda and Pacific line serves Butte and Anaconda, Montana. The BN has announced its intention to abandon certain sections of its branch lines in Montana. The BN has identified some 433.1 route miles of track that it wishes to abandon; an application to abandon 44.8 miles of this total is pending before the Interstate Commerce Commission. In addition, BN is studying an additional 95.1 route miles of track for potential abandonment. The Milwaukee Road also has made application before the Interstate Commerce Commission to abandon the remaining 280 route miles of its operations in Montana.

Mass Transit Systems

Montana is served by nine intercity bus lines. Five counties in eastern Montana and two in western Montana have no intercity bus service. Intracity bus services are provided in five Montana cities--Billings, Butte, Great Falls, Helena, and Missoula. Public funded sources account for about two-thirds of the operating budgets of these bus lines. Twenty-four cab companies also operate within Montana, serving 18 counties and 19 cities.

Licensed Motor Carriers

Motorized freight transportation services are provided by regulated and unregulated motor carriers. Intercity services are provided by 3,500 registered motor carriers; intracity services are provided by about 700 registered carriers. An exact count of unregistered motor carriers is not available; however, the Montana Department of Highways has collected fees from 963 companies (operating 14.163 units) engaged in interstate motorized transport through Montana. In addition, approximately 24,000 trucks and trailers of gross vehicle weight in excess of 26,000 pounds are registered in Montana each year.

Air Service

Commercial air services are provided by a mix of major airlines, commuter airlines, and charter air service operators. The major airlines serving Montana are Northwest, Western, Frontier, and Republic airlines, the last of which serves only Kalispell. Although Western Airlines has ceased serving Helena and West Yellowstone, service to

these communities has been assumed by Frontier Airlines. Three commuter air services operate in Montana--Big Sky Airlines, located in Billings; Flightline, Inc., located in Bozeman; and, Cascade Airlines, an Idaho based carrier serving Butte. A total of 70 Federal Aviation Administration (FAA) certified flight operators provide charter air service in Montana. Thirty-three of these operators are based in the eastern half of Montana; 37 operators serve western Montana.

Air service operations are supported by 130 public use airports in Montana, 70 of which are paved. Control of airspace is provided by only four Montana airports, located in Billings, Great Falls, Helena, and Missoula. Only five additional airports provide local FAA Flight Service Stations--Lewistown, Miles City, Butte, Bozeman, and Cut Bank. These stations provide only weather and airport advisory reports. Fifty-six airports possess some form of advisory radio service; the remainder of the State's airports are uncontrolled.

Highways

Montana maintains 5,281 miles of rural primary highway, 1,193 miles of interstate highway, and a system of secondary roads and streets that totals 66,484 miles. About one-half the primary system is in need of some form of repair, some of which will entail reconstruction. About eight percent of the secondary system is paved; the remainder is dirt or graveled road.

Vehicles

According to state sources, 664,357 motorized vehicles were registered in Montana as of June 30, 1981. Passenger vehicles constituted 392,065 of this total, trucks numbered 245,205, and motorcycles comprised the remainder, 28,088.

Miscellaneous

Pipelines and electric transmission lines also constitute modes of transportation. Unfortunately, there are no current compilations of data concerning the extent, capacity, and current levels of use of those facilities in Montana.

MONTANA'S TRANSPORTATION PROBLEMS

Montana, despite its size, is too sparsely populated and too remote from major poulation centers and markets to sustain an interstate transportation system independent of other states and regions. Montana products fall in the category of "high bulk-low value" products in the eyes of the transportation industry. With the exception of the few larger cities in the state, there are very limited markets for "low bulk-high value" products and these markets are widely separated. Although Montana production of coal, wheat, timber, and other products runs into millions of tons (26.1 million tons were shipped by rail in 1977), the contribution of Montana products to the total tonnage shipped through Montana small. In short, Montana has been, is now, and, for the near future at least, will remain a stop along the way for interstate providers of transportation.

Intrastate transportation suffers from similar conditions. Service to small, isolated rural communities is costly to shippers due to its relative inconsistency and the relatively small size of shipments. Service to these communities, in effect, is subsidized by service to more densely populated and profitable areas. State officials and industry representatives have stated that the condition could be further aggravated by deregulation of the trucking industry. If deregulation allows new competitors easier entry to the more lucrative markets without allowing established firms to exit the unprofitable markets, the existing firms could be forced from business. Alternatively, if exit as well as entry is facilitated, the smaller communities will face either much higher rates or abandonment of service.

There is little direct competition between truck transport and rail transport in the shipment of commodities in Montana. Rail transport holds a substantial competitive edge in haulage of coal, grain, and other high bulk, unrefined commodities, particularly with the adoption of unit trains and their lower rates. The truck transport sector conveys a greater proportion of value added commodities with its greater access to various Montana communities and its ability to respond more quickly to consumer demands. This relative specialization by the two major modes of transportation in Montana leaves the consumer with little alternative to the status quo.

The lack of competition between transportation modes is compounded by a lack of competition within the railroad mode as well. The withdrawal of the Milwaukee Road from most of the state has left the Burlington Northern Railroad holding a virtual monopoly on shipment of

Montana bulk commodities. The effect of the lack of competition can be seen in the rates charged Montana shippers--it is less expensive to ship grain from Nebraska to the West Coast than it is to do so from Montana.

Commercial public transportation in Montana also suffers from similar constraints--distances and small, inconsistent markets. These constraints are responsible, at least in part, for the curtailment and loss of intercity rail transit, the failure of nine intercity bus lines

Some communities are to be further denied access to rail transportation. The Burlington Northern is pursuing the abandonment of 433 miles of branch rail routes and is considering the abandonment of 95 additional miles of branch line. According to BN officials, these branch lines do not generate sufficient traffic to justify further investment in their maintenance and/or improvement. In addition, the Milwaukee Road has petitioned the Interstate Commerce Commission for permission to abandon the remaining 279 miles of its route in Montana. Abandonment of these lines will force some commodity producers to ship their produce by truck, at greater expense, to different rail terminals. Abandonment also will force some grain elevator operators either out of business or into relocation. Finally, some rural communities may lose their commercial reasons for being.

Abandonment of rail lines also will have a negative effect upon Montana's highway system. The economics of truck transport, the only feasible alternative to rail transport, require that as heavy a load as legally permitted be hauled. Few county roads and bridges were designed to support loads as heavy as those imposed by today's agricultural producers. Loads of the weight considered profitable by contract

truckers are even heavier. Further, increased heavy truck traffic upon Montana's primary and secondary highway system will do nothing to improve road conditions.

The Montana Department of Highways has reported that extensive repairs of Montana's primary highway system and bridge systems are required. Of a total of 5,281 miles of primary rural highway in Montana, some 473 miles (about nine percent) are in critical need of repair. An additional 2,194 miles (about 42 percent) will require overlay and other repairs within five years. The remaining 2,614 miles of rural primary highway are considered to be in tolerable to excellent condition. About one-third of the highway mileage in critical condition is located within grain production areas of Montana; about two-thirds of the highway in intermediate condition is located in the same areas.

The condition of the state's bridges is no more encouraging than that of its primary highway system. Of a total of 1,041 bridges on the primary highway system, 773 are considered in need of rehabilitation or replacement--95 of these must be replaced. Sixty of the 655 bridges on Montana's interstate system need work; one needs replacement. Of 486 bridges in the secondary system, 229 require rehabilitation or replacement--64 require replacement.

Montana's secondary highway system is the responsibility of the state's counties and municipalities. The secondary system incorporates a total of 66,484 miles. Of this total, 41,483 miles are graded, drained, or graveled roads. Only 5,393 miles (eight percent) of the total are paved. Nearly 20,000 miles of this system are "primitive" or "unimproved"--in many cases, little more than trails.

No concrete estimate of the total cost of repairing the state's primary highway system and bridges is available at present. Ranges of costs for certain activities are available from the Montana Department of Highways. These estimates are as follows:

1) The average cost of reconstruction of primary highway ranges between $450,000 to $500,000 per mile.

2) The average cost of resurfacing and related maintenance of primary highway ranges between $80,000 to $120,000 per mile.

3) Approximately 25 percent of the primary highway system requiring attention in the next five years (549 miles) is likely to require reconstruction.

4) The estimated cost of rehabilitating or replacing deficient bridges in the primary and interstate system is $156 million of which $52 million is for replacement.

5) The estimated cost of rehabilitating or replacing bridges in the secondary system is $111 million, of which $74 million is for replacement.

A crude sum of these costs totals approximately $915 million, at today's costs and today's value of the dollar. It is doubtful that expenditures of this size will be made in the near future--especially in light of new cuts in federal spending for highways and the decline in other conventional highway revenue sources. However, the alternatives to massive investment appear to be reduced use of the highway system or its accelerated disrepair.

WHAT OTHER STATES ARE DOING

Montana is not the only state facing transportation problems, nor is it the only state doing something about them. By 1979, some 40 states had created governmental departments of transportation. Many of these agencies have been organized to facilitate comprehensive transportation planning and policy making and to enhance coordination between the various transportation modes. A recognition of the importance of transportation to the strength of their economies has led many states to assume a more active role in the transportation arena. For example, several states have taken action to preserve freight service on low-density rail lines, others have promoted public transit programs. Many states, faced with declining revenues and inflated costs of maintaining transportation resources, have begun to adjust their financing mechanisms through tax and user fee increases and other means.

Brief summaries of selected state transportation activities of potential relevance to Montana are presented below:

- New York Local Railroad Acquisition and Rehabilitation Program. Local industrial development authorities now may acquire and rehabilitate local rail lines and contract for the provision of services by qualified operators. This authorization aids local governments and business communities in their response to proposed rail service abandonments.

- Vermont State-Owned Railroads. The State of Vermont is authorized to purchase rail lines subject to abandonment if a case can be made for public need for service and economic feasibility of

unsubsidized operations. Vermont then may contract with an operating company for service on its state-owned lines. That state now owns three railroads and is acquiring a fourth.

- Pennsylvania Railroad Gross Receipts Tax. This tax authorizes a credit equal to 25 percent of railroad companies' expenditures for railbed maintenance and rights-of-way improvements.

- The States of Indiana, Kentucky, Massachusetts, Nebraska, New Mexico, and Washington. These states have increased their gas taxes and have instituted methods to tie those taxes to inflation. (Additional information concerning state responses in highway funding areas may be found in State Highway Funding Methods: An Analyses and Update, a publication of the Road Information Program, 1899 L Street NW, Washington, D.C. August, 1981.)

- Arizona Motor Carrier Deregulation. Arizona has removed all economic controls over that state's motor carriers. Only basic safety and financial requirements remain.

- Iowa Railroad Rehabilitation Program. Iowa has authorized funds to be expended in improvement of rail lines in cooperation with rail companies and shippers, on a shared expense basis. That state also has established a railroad assistance fund to be used to upgrade railbeds and various rail facilities. Rail companies who benefit from this program are required to invest a specified portion of their increased revenues in additional improvement of branch lines.

- Wisconsin Railroad Abandonment. Although Wisconsin's constitution forbids aid to the rail industry, the state has been

authorized to establish local railroad authorities. These authorities, in turn, may buy rail facilities and contract for services with operators. In such cases, state funds are to be matched by local funds equal to 20 percent of the total expended. Wisconsin also provides limited operations subsidies under specific conditions.

- Michigan directly subsidizes rail lines; South Dakota is creating an aid program similar to that of Wisconsin.

- Maryland Consolidated Transportation Trust Fund. Maryland has established a transportation trust fund combining a number of revenue sources. This fund supports all expenses of that state's transportation department--unexpended funds to not revert to the general fund. Neither incoming revenues nor expenditures are earmarked for specific transportation modes. The administering agency is required by law to maintain a total of outstanding transportation bond issues equal to $950 million.

WHAT MONTANA IS DOING

Montana state government only recently has developed a structure to address transportation issues in a comprehensive manner. A Transportation Division was authorized within the newly created Department of Commerce during the last legislative session. In addition, the Governor has created a Governor's Transportation Advisory Council by executive order and has attached it to his office. Finally, the 47th Legislature created an Interim Joint Sub-committee on Transportation. Prior to the creation of these bodies, Montana's approach to transportation, in essence, was single purpose and single

issue. Despite this narrow focus, those working on transportation issues in the past did accomplish some coordination and communication between offices and organizations concerned with transportation.

The Transportation Division of the Department of Commerce is charged with providing litigation, analytic, technical, planning and financial assistance to local governments and to transportation users and providers. The division comprises two bureaus and two sections. The organizational components are charged with the following responsibilities:

- Planning and Assistance Bureau. This bureau is to develop recommendations for improvement of Montana's transportation system and administers various federal and state technical and financial assistance programs. These services are to assist shippers, agriculture, the rail and trucking industries, mass transit carriers, and other transportation users and providers.

> Commodity Section. A unit of the Planning Bureau, this group is to maintain and implement the projects and recommendations of the State Rail Plan. In addition, this unit is to address special issues as assigned.
>
> Passenger Section. This unit of the Planning Bureau is to administer various federal and state programs concerning inter- and intracity mass transit and transportation for various special groups.

- Litigation and Analysis Bureau. This bureau is responsible for analyses and litigation within the division, for technical expertise and assistance to shippers, and for analytic work.

The first priority of the Transportation Division is the development of a specific work plan including a statement of goals and objectives, according to its administrator.

The Governor's Transportation Advisory Council comprises representatives of Montana's rail, trucking, and airline industries, shippers of Montana commodities, public transit interests, local and state government organizations, Montana legislators, and of transportation organizations and associations. The Council has been charged with the responsibilities of evaluating transportation problems and of developing a comprehensive and coordinated plan to address Montana's transportation needs.

The Interim Joint Sub-committee on Transportation held its first meeting in July, 1981. The committed heard the testimoney of various state and private transportation interests and instructed its staff to conduct an inventory of the state's transportation resources. The committee informally agreed to define its scope of work only after additional public meetings.

Other state government organizations also are involved in transportation issues. The Departments of Agriculture, Highways, Military Affairs, Natural Resources and Conservation, and of Public Service Regulation directly and indirectly influence or are influenced by transportation issues.

At present, no formal mechanism exists to ensure communications and coordination of activities among all the entities engaged in the transportation issue.

ISSUES AND RECOMMENDATIONS

It is clear that Montana is beset by serious transportation problems. The fact that these problems are shared by other states

neither solves Montana's problems nor makes them more pleasant. The existence of these problems in other states, however, does provide an opportunity to establish productive working relationships with those states and may enable Montana to benefit from their mistakes and successes. Although the experiences of other states may not apply to Montana's particular problems, it would be unwise to ignore them. Further, some political advantage may be gained through joint state efforts.

Some of the problems identified earlier in this chapter are beyond Montana's control (e.g., inflationary costs, market trends, federal statutes, and policies). Others are exclusively a state responsibility (e.g., state transportation policies and investment programs). Some others may be beyond practical solution (e.g., modal specialization in transport of goods, the nature of Montana's produce, and the like). Some effort should be devoted to identifying those problems that are amenable to solution by the state and those about which the state can do little or nothing. Little beyond identification should be invested in the latter.

Montana should recognize that less assistance from outside sources is available to attack transportation problems than in recent years. For example, federal aid to states for highway construction and maintenance has been cut drastically--Reagan administration budget targets may result in still more drastic cuts. If Montana is to attack its transportation problems, it must be prepared to do so itself. Other, more populous states, also are suffering transportation

problems--more aid is apt to be given to those who can bring more pressure to bear.

State influence over transportation issues also has dwindled in recent years. Passage of the Staggers Act of 1980, concerning interstate regulation of railroads, places the states in a position that definitely is subservient to the Interstate Commerce Commission (ICC). State rail regulatory agencies now either must be certified by and accede to the decisions of the ICC, or abandon regulation of interstate rail carriers. Not only are the states disenfranchised in this respect, but those who wish to object to rail rates now have fewer opportunities and less time in which to do so. The Motor Carriers Act of 1980 also has weakened state and public voices in motor carrier regulation, although less drastically than did the Staggers Act. The burden of proof concerning contested rate cases has been shifted from the carrier to the protestant. In addition, the Motor Carriers Act exempted additional commodities from regulation and provided the carriers more flexibility in setting rates short of review by regulatory bodies.

The sparse population of Montana and the state's rugged, open spaces are valued highly by Montanans. It should be recognized that these very assets are the cause of some of the state's transportation problems. Wide open spaces and sparse populations translate into more difficult and less profitable transportation operations and less flexibility within both the producing and the transporting industries. These conditions also dictate the nature of products that require transportation and, hence, the favored mode of transportation. This is

not to say that improvements and efficiencies cannot be made, but to suggest that the nature of Montana poses transportation limitations that may be less severe elsewhere.

It also should be recognized that economic feasibility and profitability are the variables that govern the locational decisions of the transportation industry. Appeals to historic obligations, past subsidies, and the like serve no real purpose. If an adequate rate of return on the transportation investment dollar can be made, then services will be provided (barring regulatory restrictions on market entry). If the market is not large enough to sustain services, eventually those services will be terminated. Further, public subsidy of unprofitable operations either only postpones probable failure or should be perceived as a long term, and risky, public investment. Public subsidy of entry to a profitable transportation market may be a different matter; however, it was this form of subsidy that initially helped establish the nation's transportation system.

The purpose of the discussion has been to suggest that Montana is faced with a problem that will not yield readily to traditional approaches. That the state recognizes this may be seen in its creation of a Transportation Division, a Governor's Transportation Advisory Council, and an Interim Joint Sub-committee on Transportation. It is far too early to tell how these bodies will approach their responsibilities or what they will accomplish. Some attention to the following may prove useful:

1) A single and complete inventory of all transportation resources is needed, to include an assessment of the condition, capacities and use of each resource. An inventory, compilation and summary of all transportation data maintained by various state offices and other organizations also should be accomplished;

2) A clear statement of the state's transportation problems should be developed as soon as possible. Attention should be focused specifically on only those problems amenable to solution or amelioration by the state;

3) A formal declaration of Montana transportation policy, applicable to all state government jurisdictions, and establishing priorities among the state's transportation problems, should be issued by the Governor's Office as soon as possible. This policy should be developed in conjunction with the Legislative Branch and the Public Service Commission;

4) A work plan illuminating the steps to be taken in accomplishment of Montana's transportation policy and allocating specific responsibilities to specific bodies, should be developed and issued as soon as possible;

5) Formal systems of communication should be established with all state offices directly engaged in transportation and with programs that affect transportation resources;

6) Existing ties between Transportation Division personnel and transportation industry providers and users should be formalized and strengthened to ensure a reliable flow of communication;

7) State officials should ensure that Montana is kept abreast of transportation policy developments in other states, and particularly in the more rural states; and,

8) A program of public information and education concerning the state's transportation problems, policy, and work plan should be undertaken as soon as possible to prepare the public for its role in the solution of those problems.